House of Commons

Committee of Public Accounts

Consumer-funded energy policies

Thirty-ninth Report of Session 2016–17

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 1 February 2017

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The Committee of Public Accounts

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Publication

Committee reports are published on the Committee's website and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee's website.

Committee staff

The current staff of the Committee are Dr Stephen McGinness (Clerk), Dr Mark Ewbank (Second Clerk), George James (Senior Committee Assistant), Sue Alexander and Ruby Radley (Committee Assistants), and Tim Bowden (Media Officer).

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Contents

Summary

Government's management of the Levy Control Framework (the Framework) has suffered from a lack of transparency, rigour and accountability. Forecasting of Framework costs has been poor, and the Department (formerly the Department of Energy & Climate Change, now the Department for Business, Energy & Industrial Strategy) continues to expect to overspend the Framework budget. As a result these costs are likely to add around £110 to the typical household's yearly energy bill in 2020, £17 more than budgeted for.[1] We are concerned that the problems with forecasting reflect a culture of optimism bias in the Department. We reported earlier this year that the Department's forecast of demand for Green Deal loans had been "so wildly optimistic it gave a completely misleading picture of the scheme's prospects to Parliament and other stakeholders".[2] The Department must now foster a culture of openness and transparency around its consumer funded energy policies and together with HM Treasury, it must do more to demonstrate that these schemes are providing value for money for consumers.

1 All figures in this report are in 2011–12 prices as that is the basis on which the Framework budget is set.

2 Committee of Public Accounts, *Household energy efficiency measures*, Eleventh Report of Session 2016–17, HC 125, 20 July 2016, Conclusions and recommendations, para 2

Introduction

Our electricity system is undergoing a radical transformation in response to two challenges: the need to maintain a secure energy supply and the need to reduce carbon emissions. These challenges arise because demand for electricity is expected to increase over the next two decades while many of the UK's existing coal and nuclear power stations will shut. At the same time, Government wants a growing proportion of electricity to come from low-carbon sources like wind, solar energy and nuclear power to meet its climate change targets.

Most government policies to promote and manage this transition involve placing obligations on energy suppliers with the resultant costs being funded by consumers through their energy bills. To help control these costs, in 2011 HM Treasury and the Department for Business, Energy and Industrial Strategy created the Levy Control Framework (the Framework). The Framework sets yearly caps on the forecast costs of three government schemes to support low-carbon generation that are funded by consumers: the Renewables Obligation, Feed in Tariffs, and Contracts for Difference. The Framework requires the Department to take early action to reduce costs if forecasts exceed the cap. The cap is £4.9 billion for 2016–17 rising to £7.6 billion for 2020–21. In 2016 Framework costs constituted £64 of the typical household's yearly energy bill.

Conclusions and recommendations

1. **The Department for Business, Energy and Industrial Strategy (the Department) significantly underestimated the costs of the three Framework schemes, adding an estimated £17 to the typical household's yearly energy bill in 2020.** The Department did not do enough to ensure its forecasts were based on the best available evidence. During 2015, in the space of just four months, the forecast costs of the schemes in 2020–21 increased by £2 billion, as the Department came to realise many of the assumptions underpinning its forecasts were likely to be inaccurate. These included its assumptions on the performance of offshore wind load turbines which, when updated after a gap of 18 months, led to a £600 million increase in forecast costs. This forecasting failure was similar to a previous failure of the Department to accurately forecast uptake of solar panels in 2010 and 2011. While the Department did take corrective action to reduce costs when the forecast overspend came to light, this was not sufficient to bring costs back beneath the budgetary cap. As a result, households will have to pay extra on their energy bills every year, with the amount reaching £17 per household in 2020.

   Recommendation: ***The Department must ensure it has access to the right expertise and intelligence to ensure its forecasts are based on the best available evidence. It should review its market intelligence capability regularly to ensure it is doing enough to mitigate the risk of further forecasting failures.***

2. **The Department had not prepared properly for the possibility that its forecasts were wrong, and as a result, had to take quick corrective action that may have undermined investor confidence unnecessarily.** Prior to the forecast overspend emerging, decision-makers focussed too heavily on the central forecast. If the Department had considered the possible implications of its forecasts being wrong, and put in place a contingency plan for controlling the schemes at the outset, it might have avoided the need for the abrupt scheme changes that it made in 2015 to cut costs. The changes included closing the Renewables Obligation to wind and solar projects a year earlier than previously expected, and imposing new limits on the amount of renewable electricity Feed-in Tariffs would support. These risked harming the confidence of businesses looking to invest in this sector in the UK. The UK's position on the EY renewable energy country attractiveness index fell from 8^{th} in 2015 to 13^{th} in May 2016.

   Recommendation: ***The Department and HM Treasury should assess the uncertainty surrounding forecasts of energy schemes, and put in place proportionate backup plans for controlling scheme costs and outcomes in the event that central forecasts prove incorrect.***

3. **Governance responsibilities for the Framework were badly defined, and HM Treasury failed to provide sufficient oversight.** Poor communication between senior officials and those responsible for carrying out analysis contributed to the forecasting problems in 2015. The Levy Control Board, which was set up to provide HM Treasury oversight of the Framework, stopped meeting after 2013 and did not reconvene until July 2015, after the overspend emerged. It is vital that HM Treasury challenges departments' consumer-funded spending to the same extent as exchequer-funded spending.

Recommendation: ***The Department and HM Treasury should review the governance arrangements for all consumer-funded energy schemes, and write to us with the outcome of the review. Governance arrangements should ensure boards responsible for the schemes meet regularly and include sufficiently senior officials from both departments.***

4. **The Department does not publish enough information on the Framework and it has not produced, as promised, annual reports on consumer-funded energy schemes.** Businesses in the renewables sector consider that greater transparency of the forecasting assumptions used would help the Framework achieve its objective of supporting investor confidence. The Department commissioned an internal review into the forecasting problems identified in 2015, which provided a clear account of how and why the forecasts shifted, yet it failed to publish the review for 18 months. In July 2014 Government agreed to provide Parliament with an annual report on the impact of policies on energy bills, but has not done so since 2014. The consumer-funded policies report which the Department published a few days before our evidence session on the Framework is not an adequate substitute for a full report on consumer bills: for example, it does not show the net impact of policies once cost-saving effects are included.

Recommendation: ***The Department should report much more openly and regularly on the Framework and also publish a consumer prices and bills report annually in an easily understandable format so that consumers can see clearly what they are paying. The next edition should be published before April 2017. It should also publish a clear account of the assumptions underpinning Framework forecasts each time those forecasts are published.***

5. **The review of the Framework needs to address drawbacks in the current design to avoid it becoming increasingly ineffective at controlling costs to consumers and supporting investor confidence.** The Department and HM Treasury are reviewing the future of the Framework, but have not set out the scope of the review in detail. The Treasury will not be consulting formally on the future of the Framework relying instead on engaging stakeholders including through roundtable discussions. Renewable energy associations have called for the timeframe of the Framework to be extended and have highlighted several drawbacks to the current design in need of review. These include the way the Framework measures the costs of public support for renewable energy. The current approach means that Framework costs go up when wholesale prices of energy go down, which could incentivise decision makers to cut support for renewables at the point when energy is most affordable.

Recommendation: ***In reporting the results of the review the Treasury should set out in detail how the future Levy Control Framework or its successor will operate. It should also demonstrate how stakeholders' concerns were identified and addressed in the new arrangements, including regarding the way costs are measured.***

6. **Other schemes that impact on energy bills are not included in the Framework.** The Framework places a cap on energy schemes that support low-carbon generation, but these are not the only policies that affect energy bills. It does not cap the costs of the Capacity Market, for example, which is likely to cost consumers around £1 to £3 billion a year from 2017–18 and it does not reflect the potential for energy efficiency standards for new homes to cut energy bills by reducing the need for heating. There is therefore a risk that decision makers could lose sight of the significant impacts of these other schemes on the affordability of energy bills.

Recommendation: ***As part of reviewing the future of the Framework the Department should ensure it has appropriate arrangements to monitor and control the costs of all consumer-funded energy schemes.***

1 The over-allocation of the Framework budget

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department for Business, Energy & Industrial Strategy (the Department) and HM Treasury on the Levy Control Framework (the Framework).[3]

2. Our electricity system is undergoing a radical transformation in response to two challenges: the need to maintain a secure energy supply and the need to reduce carbon emissions. These challenges arise because demand for electricity is expected to increase over the next two decades while many of the UK's existing coal and nuclear power stations will shut. At the same time, government wants a growing proportion of electricity to come from low-carbon sources like wind, solar energy and nuclear power to meet its climate change targets.[4]

3. Most Government policies to promote and manage this transition involve placing obligations on energy suppliers rather than being funded from general taxation. As a result, their very substantial costs are ultimately passed on to consumers as part of their energy bills. To help control these costs, in 2011 HM Treasury and the Department of Energy & Climate Change created the Levy Control Framework (the Framework). Currently, the Framework sets yearly caps on the forecast costs for bill payers of three government schemes to support low-carbon generation: the Renewables Obligation, Feed in Tariffs and Contracts for Difference. It requires government to take early action to reduce costs if forecasts exceed the cap. The cap in 2016–17 is £4.9 billion, rising to £7.6 billion for 2020–21. In 2016 Framework costs constituted £64 of the typical household's yearly energy bill. Government also intended for the Framework to provide a useful signal to the renewables sector of how much support it can expect in future. This would help to support the confidence of investors in that sector, and thereby help to keep financing costs low, which in turn helps to keep scheme costs low for consumers.[5]

4. The Department told us that it was on track to exceed its goal of sourcing 30% of electricity from renewables by 2020. But it also expects the costs of the schemes to exceed the cap in every coming year until March 2021. When the Government realised this in 2015, it changed the schemes in an effort to reduce their costs to bill-payers.[6]

Forecasting

5. Forecasts of Framework costs shifted significantly over a short period of time. The Department told us that in early 2015 it had been predicting that costs in 2020–21 would be £500 million beneath the cap but by June 2015 its projections were for costs to be £1.5 billion over the cap: a swing of £2 billion. The Department attributed this increase to three factors: a big increase in the expected number of renewable energy projects; an increase

3 C&AG's Report, *Controlling the consumer-funded costs of energy policies: The Levy Control Framework*, Session 2016–17, HC 725, 18 October 2016

4 C&AG's Report, paras 1.3–1.4

5 C&AG's Report, paras 1.9–1.13 and para 3.22; figure 4, figure 5 and figure 7

6 Qq 77, 101; C&AG's Report, figure 7 and figure 20

in the expected performance of those projects that accounted for about £680 million of the £2 billion swing; and a decrease in the expected wholesale price of electricity that accounted for a further £320 million cost increase.[7]

6. If the Department had done more to gather and make use of commercial intelligence, it might not have been caught out by a sudden increase in forecast costs. For example, the Department's assumptions on the performance of offshore wind load turbines were not updated for 18 months, and when updated, led to a £600 million increase in forecast costs, 30% of the total increase. The Department told us that the high level data the Department had been considering at the time had been based on existing wind farms and did not attach full weight to the new build of very large offshore wind turbines that were achieving greatly improved performance. The Department stated that it had adjusted its methodology to ensure it is closer to the market and takes into account all available sources.[8]

7. These events bear a striking resemblance to a previous failure to accurately forecast uptake of solar panels in 2010 and 2011. The Department's review of that forecasting failure highlighted the importance of developing commercial intelligence. But by the Department's own admission the recommendations of this review were implemented unevenly. As we reported earlier this year, the former Department of Energy & Climate Change was also responsible for producing highly over-optimistic forecasts of another of its demand-led energy schemes, the Green Deal.[9]

8. The Department told us that it had taken corrective action when the forecast overspend came to light. It made changes to Feed-in Tariffs and introduced a deployment cap that saved over £400 million. The early closure of the renewables obligation for solar and for onshore wind saved between £80 million and £100 million, and the cancellation of the carbon capture and storage competition saved £570 million. The Department also noted that it had also taken corrective action to bolster its forecasting efforts. Although the forecast costs of the schemes have been brought down, as of June 2016 they are still expected to breach the budgetary caps. As a result, annual household energy bills will be £17 higher in 2020 than they would have been if the Department had stayed within its budget.[10]

Managing uncertainty

9. The Department told us that forecasting for the Framework was "a complicated process with a lot of uncertainty".[11] And the possible consequences of the Department under-estimating costs are significant: either consumers will be hit with additional costs, or rates of support for new renewable energy projects will have to be cut. After the Department discovered that it was likely to overspend the Framework budget, it imposed an upper limit on the costs of the Feed-in Tariffs scheme by capping the amount of capacity it could support.[12]

7 Q9
8 Q32; C&AG's Report, paras 5–7 in appendix three
9 Qq 16–20; C&AG's Report, para 1.17 and para 2.21; Committee of Public Accounts, *Household energy efficiency measures, Eleventh Report of Session 2016–17*, HC 125, July 2016
10 Qq 28, 61–62, 77; C&AG's Report, paras 1.19–1.20 and para 3.7
11 Q 62
12 C&AG's Report, para 1.19

10. The Department's own internal review into the events of 2015, conducted by its non-executive director Tom Kelly, found that it had not done enough to consider "the essential 'what if?' questions".[13] The Department told us that Framework forecasts always included a high case and a low case alongside the central (best) estimate. But the Kelly review noted that "whilst high, medium and low forecasts are set out, there [was] an inclination to focus on the central assumption".[14] As a result, the Department says it was "genuinely surprised"[15] by the rise in forecast costs in 2015, and responded with abrupt scheme changes to cut costs.[16]

11. Cuts to support for business will sometimes be necessary in order to control costs for consumers. But abrupt changes risk harming investor confidence unnecessarily which in turn can lead to higher financing costs, increasing costs to consumers. The Department acknowledged that the decisions it took in 2015 "would have affected investor confidence, particularly in those sectors that were most impacted, namely onshore wind and solar," although it also believed that investor confidence remained high "overall".[17] However, the UK's position on the EY renewable energy country attractiveness index fell from 8th in 2015 to 13th in May 2016.[18]

Governance

12. The Kelly review identified weak governance as one of the underlying causes of the forecasting failure in 2015. No single person had responsibility for the framework, and there was an over-reliance on the same group of external consultants which created a risk of 'groupthink'. Furthermore, "intelligence received at senior levels [was] not always passed to those making assumptions, meaning assumptions [were] not always based on best departmental evidence".[19]

13. In addition, the National Audit Office found that HM Treasury failed to provide sufficient oversight of the Framework. The Levy Control Board, comprising senior officials from HM Treasury and the Department, was given overall responsibility for the Framework. But the Board stopped meeting after 2013, and did not reconvene until after the Department realised it was likely to overspend the Framework budget. HM Treasury and the Department told us that the Levy Control Board stopped meeting because the Department's forecast expenditure was well within budget, and HM Treasury was involved in the governance of the Framework in other ways. In particular, it was attending the Department's Electricity Market Reform Board, and providing oversight of what was thought to be the riskiest part of the Framework, Contracts for Difference. Nevertheless, the Levy Control Board was the Board responsible for the Framework as a whole, and the bulk of the increases in forecast costs in early 2015 came from Feed-in Tariffs and the Renewables Obligation, not Contracts for Difference.[20]

13 Department for Business, Energy & Industrial Strategy, *Management of the Levy Control Framework: Lessons Learned Report*, November 2016; C&AG's Report, para 2.19

14 Q 60; Department for Business, Energy & Industrial Strategy, *Management of the Levy Control Framework: Lessons Learned Report*, November 2016

15 Q 43

16 Qq 19; C&AG's Report, para 2.20 and para 3.28

17 Q 149

18 C&AG's Report, para 3.28 and figure 12

19 Department for Business, Energy & Industrial Strategy, *Management of the Levy Control Framework: Lessons Learned Report*, November 2016

20 Qq 35–40, 44, 51–57; C&AG's Report, para 2.19 and figure 15

14. We asked HM Treasury about the impact of consumer funded costs on public finances and whether this was a matter of concern. HM Treasury told us that this spending does not affect measures of government borrowing or debt, but it does form part of the "fiscal aggregate of totally managed expenditure". HM Treasury also told us that it cared "enormously about the costs on bills".[21]

21 Qq 51–57

2 Wider issues with the Framework and consumer-funded schemes

Transparency

15. The Department for Business, Energy and Industrial Strategy (the Department) has not done enough to report regularly and transparently on the Framework, or the various consumer-funded energy schemes which are not included in the Framework's budgetary cap. The lack of transparent reporting to date has undermined the effectiveness of the Framework, and made it more difficult for Parliament and other stakeholders to hold government to account for its use of bill payers' money.[22]

16. Several organisations working in the energy sector told us that the assumptions used by the Department to forecast for the Framework have not been publicly disclosed, and that this limited the effectiveness of the Framework as a mechanism for supporting confidence among businesses investing in renewables. The Department told us that it already publishes many forecasting assumptions and would continue to do so. However, the National Audit Office concluded that the Department could publish more forecasting assumptions than it has to date, and could make their presentation clearer to stakeholders. The Department's internal review into the events of 2015 reported on why the Framework forecasts suddenly shifted into overspend, but the Department only published the report 18 months after it had been written, a few days before our evidence session.[23]

17. In July 2014, the Department of Energy & Climate Change agreed to provide Parliament with a report on the impact of its energy schemes on consumer bills. But the last time the government did so was two years ago, in November 2014. The consumer-funded policies report, another report which the Department published a few days before our evidence session, is not an adequate substitute for a full report on consumer bills. It focussed on the national costs of schemes rather than impacts at a household level. It also does not show the net impact of policies once cost-saving effects are included. The Department told us it would "discuss internally whether [the Department] can produce more and better information about consumer prices and bills".[24] [25]

Review of the Framework

18. The Chancellor of the Exchequer's 2016 Autumn Statement stated that "The government is considering the future of the Levy Control Framework which it will set out at Budget 2017".[26] The Department and HM Treasury told us that they had been discussing the future of the Framework for many months, but did not currently intend to formally consult stakeholders on it, and consultation would be a question for Ministers. HM Treasury noted that it had "a very good dialogue with the key stakeholders,"[27] but

22 Qq 79–84, 110

23 Qq 10, 11, 104; C&AG's Report, paras 3.16–3.17; ADBA (LCF0002); Drax (LCF0013); Greenpeace UK (LCF0001), para 2; ScottishPower (LCF0015), para 10

24 Q 175

25 Qq 85, 89–90, 95–96; Energy and Climate Change Committee, *Levy Control Framework: Government Response, First Special Report of Session 2014–15*, HC 590, July 2014; Department for Business, Energy & Industrial Strategy, *Consumer-Funded Policies Report*, November 2016

26 HM Treasury, *Autumn Statement*, November 2016

27 Q 115

also told us that no details of its review of the Framework had been published.[28] HM Treasury subsequently told us that it would not be consulting formally on the future of the Framework as it was not normal practice for HM Treasury to consult on budgetary or cost control frameworks. However, it would continue to engage stakeholders on this issue, including through roundtable discussions.[29]

19. The Department told us that part of the rationale for the review was that "we are moving into a different environment" for the Framework as the importance of Contracts for Difference grows.[30] At present, the Framework's budgetary limits apply to one aspect of the costs of Contracts for Difference, known as 'top-up payments'. The costs of top-up payments are uncertain, because they vary with the wholesale price of electricity, which is itself inherently difficult for anyone to predict. The National Audit Office concluded that this was a drawback to the present design of the Framework. It may create a stop-start pattern of investment in renewables which is not conducive to value for money. And because top-up payments go up when the wholesale price of electricity goes down, there is a risk that decision makers will be incentivised to cut back on support for renewables precisely at the point when energy bills become more affordable for consumers, a result which seems inconsistent with the original the purpose of the Framework. As the use of Contracts for Difference grows, these issues will become more severe.[31]

20. The Department told us that it was considering these issues as part of its review, along with the way the Framework and Contracts for Difference should be used to provide investors in renewables with indications of how much government support would be available in future, in order to maintain investor confidence. We received a number of submissions suggesting that extending the timeframe of the Framework was crucial in order to maintain investor confidence: the Framework currently only sets out budgetary limits as far as 31 March 2021, whereas some investors in renewables are planning projects which take up to ten years to bring to market. Other submissions suggested that government need not necessarily use the Framework to provide visibility of future support, but still called for government to provide greater clarity to investors.[32]

Consumer-funded schemes more widely

21. Aside from the schemes capped by the Framework, the Department has other energy schemes funded by consumers, such as the Capacity Market. The Capacity Market is designed to ensure the lights stay on, and works by paying sources of capacity simply for being available to supply power reliably. It is expected to cost £1–3 billion per year from 2017–18. The Department is also responsible for additional schemes that impose costs on consumers, such as the Warm Homes Discount, the Energy Company Obligation, and Smart Meters. HM Treasury told us that it tried to be just as careful with the funds used for these other schemes as it was with money spent on renewables. However, the National

28 Qq 116–123
29 Letter from HM Treasury dated 13 December
30 Q 139
31 Qq 113–114, 124, 130; Citizens Advice (LCF0008), paras 7–13; C&AG's Report, para 2.9
32 Drax (LCF0013); ENGIE UK (LCF0016); Renewable Energy Association (LCF0004); Renewable Energy Systems (LCF0014), paras 8–9; Renewable Energy UK (LCF0011), para 2; ScottishPower (LCF0015), paras 34–38; Vattenfall Wind Power (LCF0003)

Audit Office found that there is "no strong and coherent budgetary framework for all levy-funded expenditure".[33] HM Treasury indicated that it would review which schemes are covered by the Levy Control Framework.[34]

22. Improvements to the energy efficiency of buildings can create dramatic reductions in energy use, thereby reducing the amount consumers have to spend on energy. Regulations and standards for new homes have an important part to play in this, because they help to ensure developers build homes to high standards of energy efficiency. The Department told us that the UK's energy efficiency regulations for new homes are as high as those anywhere in the world. Nonetheless, new homes being built today routinely fall short of the highest standards of energy efficiency.[35]

33 C&AG's Report, para 1.14

34 Qq 162–169; C&AG's Report, paras 2.3–2.4, figure 3 and figure 11

35 Qq 154, 157; Department for Communities and Local Government, *Energy Performance of Buildings Certificates in England and Wales*, October 2016

Formal Minutes

Wednesday 1 February 2017

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon	Anne Marie Morris
Philip Boswell	Bridget Phillipson
Caroline Flint	John Pugh
Kwasi Kwarteng	Mrs Anne-Marie Trevelyan
Nigel Mills	

Draft Report (*Consumer-funded energy policies*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 22 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Thirty-ninth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 6 February 2017 at 3.30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 30 November 2016

Question number

Alex Chisholm, Permanent Secretary, **Jeremy Pocklington**, Director General, Markets and Infrastructure Group, Department for Business, Energy and Industrial Strategy, **Neil Kenward**, Deputy Director of Energy, Environment and Agriculture, HM Treasury, and **Simon Virley**, former Director General (Energy Markets and Infrastructure), Department of Energy and Climate Change — Q1–181

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

LCF numbers are generated by the evidence processing system and so may not be complete.

1 ADBA (LCF0002)

2 Banks Renewables (LCF0012)

3 Citizens Advice (LCF0008)

4 Department for Business, Energy and Industrial Strategy (LCF0017)

5 DONG Energy (LCF0005)

6 Drax Group plc (LCF0013)

7 Ecotricity Group Ltd (LCF0006)

8 Engie UK (LCF0016)

9 Greenpeace UK (LCF0001)

10 Ofgem E-Serve (LCF0009)

11 Renewable Energy Association (LCF0004)

12 Renewable Energy Systems Ltd (LCF0014)

13 Renewable Energy UK (LCF0011)

14 ScottishPower (LCF0015)

15 Vattenfall Wind Power Ltd (LCF0003)

List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2016–17

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Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
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Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486 (Cm 9389)
Fifteenth Report	BBC World Service	HC 298 (Cm 9389)
Sixteenth Report	Improving access to mental health services	HC 80 (Cm 9389)
Seventeenth Report	Transforming rehabilitation	HC 484 (Cm 9389)

Eighteenth Report	Better Regulation	HC 487 (Cm 9389)
Nineteenth Report	The Government Balance Sheet	HC 485 (Cm 9389)
Twentieth Report	Shared service centres	HC 297 (Cm 9389)
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Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489
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Twenty-seventh Report	Managing government spending and performance	HC 710
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Thirty-second Report	Devolution in England: governance, financial accountability and following the taxpayer pound	HC 866
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HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Energy Policy: the Levy Control Framework, HC 773

Wednesday 30 November 2016

Ordered by the House of Commons to be published on 30 November 2016.

Watch the meeting http://parliamentlive.tv/Event/Index/6d511a30-18a8-44b2-bff2-f38a4154245e

Members present: Meg Hillier (Chair); Mr Richard Bacon; Philip Boswell; Charlie Elphicke; Chris Evans; Caroline Flint; Kevin Foster; Simon Kirby (ex officio); Kwasi Kwarteng; Nigel Mills; Anne Marie Morris; Karin Smyth.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Michael Kell, Director of Energy and Environment Value for Money Work, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Questions 1-181

Witnesses

I: Alex Chisholm, Permanent Secretary, Department for Business, Energy and Industrial Strategy, Neil Kenward, Deputy Director of Energy, Environment and Agriculture, Treasury, Jeremy Pocklington, Director General, Markets and Infrastructure Group, Department for Business, Energy and Industrial Strategy, and Simon Virley, former Director General (Energy Markets and Infrastructure), Department of Energy and Climate Change.

HOUSE OF COMMONS

Reports by the Comptroller and Auditor General

Levy Control Framework (HC 815)

Examination of witnesses

Alex Chisholm, Neil Kenward, Jeremy Pocklington and Simon Virley.

Chair: Good afternoon, and welcome to the Public Accounts Committee on Wednesday 30 November 2016. Before we start our formal business today, which is to look at the Levy Control Framework on the back of a National Audit Office Report, I am delighted to welcome Simon Kirby. Simon is Economic Secretary to the Treasury, and thereby an ex officio member of the Public Accounts Committee. Mr Kirby, would you like to say anything to us while you are here?

Simon Kirby: Thank you, Chair. I am very much aware that this Committee builds on 150 years of tradition and history in ensuring value for money and proactively challenging waste and inefficiency. As a Treasury Minister, I am here to say that I fully support the Committee on their continuing and critical scrutiny of Government spending and performance. I also fully endorse the good work of the Comptroller and Auditor General and the National Audit Office in assisting the Committee in this important role.

Over those 150 years, both the Treasury and the Committee have shared a common goal to ensure that taxpayers' money is spent well and that good quality public services are achieved for the benefit of everyone in our nation. That is not always an easy task, but it is always worth while, and I hope that we can continue as natural allies on this important journey over the next 150 years—certainly long after we have all left office.

The public rightly demands greater transparency from those who make and take decisions and who spend money on their behalf, and I believe that this Committee remains one of the most influential Committees in Parliament's crucial role of holding the Executive to account. The Committee is hard-working and well respected, and I read with interest the Chair's first annual report of the current Parliament, published only last week, in which she outlined the challenges we face in delivering cost-effectiveness. I agree with you that proper and full accountability to Parliament and the public needs to be maintained, and enhanced where possible. I share the Chair's view that the end user of public services must always be foremost in public servants' minds.

Looking at Treasury minutes, I am impressed that the vast majority of this Committee's recommendations have been accepted by successive Governments, which shows the value that the Committee adds as it measures the effectiveness and efficiency of Government Departments in spending taxpayers' money and on how well they deliver public services.

More importantly, I can assure you that the Government will always endeavour to deliver fully on the Committee's recommendations and overcome any obstacles to delivery. Clearly, the Treasury and the Department take implementing Committee recommendations very seriously and will continue to do so. I also recognise the important work of the Committee's Clerks and staff, which ensures that the Committee's business is taken forward so effectively. Thank you very much for that.

I also know that the Treasury Officer of Accounts team, as a central point of contact in Government, will always want to assist you where possible. More generally, both the Treasury and the Committee share the same view on increasing the transparency and accountability for public spending. This way we can improve accountability to Parliament, taxpayers and the general public—all very good things.

I am therefore pleased that in response to a recent Committee recommendation, the focus on stronger transparency and accountability will be enhanced as all principal accounting officers can now provide accountability system statements, annually updated, covering all the relevant accountability relationships within their departmental groups and arm's length bodies. This is undoubtedly another important and welcome step forward in the right direction to hopefully address one of your specific concerns, Chair.

Finally, as a member of this great Committee, I will continue to monitor its work—perhaps from afar you may not even realise I am doing so. I shall look carefully at your recommendations, I shall receive your Reports and I will endeavour to maintain the essential and long-standing relationship between the Treasury and the Committee. I wish to commend you on all of your good work and all of your efforts, and I wish you the very best for the future.

Chair: Thank you very much, Mr Kirby. It is great to know we have a champion of ours in the heart of Government.

Simon Kirby: I am here to help.

Q1 **Chair:** If we are having any difficulty in response to our recommendations, we may well flag those to you, as well as calling the permanent secretary back to explain themselves. Thank you very much. We understand you have important business in the Treasury, so we will carry on doing the work that you have described today.

I can now introduce the main session. As I said, we are looking at the National Audit Office's Report on how the Levy Control Framework has worked. This is important to our constituents because the levies end up coming out of the pockets of the very service users that the Minister was just talking about. I will hand straight over to Caroline Flint, who will kick off our questions today. Forgive me—I have not introduced the witnesses, which is a bit silly of me. I was so wowed by the Minister and his praise for our Committee that for a moment I forgot myself. We have Neil

Kenward from the Treasury that the Minister was representing. Mr Kenward is the deputy director for energy, environment and agriculture at the Treasury. Mr Kenward, those are a lot of responsibilities for one man. I am sure you are an able man, but do you feel resourced enough to deal with this issue as one of the three things that you are looking at?

Neil Kenward: Yes indeed. This is one of the issues that is a high priority for myself and my team, so I feel ably resourced, thank you.

Q2 **Chair:** How many do you have in your team to deal with the energy element?

Neil Kenward: Roughly 10 people. It varies up and down over the course of time, but about 10 people fixed on the energy portfolio.

Q3 **Chair:** How long has it been energy, environment and agriculture all together?

Neil Kenward: Since at least before I joined two years ago.

Q4 **Chair:** We also have Alex Chisholm, permanent secretary at the Department for Business, Energy and Industrial Strategy—that's quite a mouthful. Remind us how long you have been in post, Mr Chisholm.

Alex Chisholm: Since the Department was formed. I was confirmed as the sole permanent secretary and accounting officer in September.

Q5 **Chair:** Jeremy Pocklington is director general of the markets and infrastructure group. Just to be clear, Mr Pocklington, you were at DECC up until July.

Jeremy Pocklington: That's right. I started in DECC in February 2015.

Q6 **Chair:** So you are doing much the same role now.

Jeremy Pocklington: I have done the same job since February 2015. For three and a half months I was acting permanent secretary and appeared before this Committee in that role.

Q7 **Chair:** Simon Virley is the former director general for the markets and infrastructure group at DECC. To be clear, Mr Virley, you are the one who has seen this through the longest of all the witnesses. Can you be clear about the dates that you worked at DECC on this area of work?

Simon Virley: I was at DECC throughout the period from 2008, when it was created, to October 2014, when I left the civil service. I am now at KPMG.

Q8 **Chair:** Have you actually left? You are actually working for KPMG?

Simon Virley: Yes.

Chair: Thank you very much for coming back; we like people to come back and explain what they have been doing.

Q9 **Caroline Flint:** We are here today because the NAO Report has identified that between February and June 2015 the Department's forecast of costs in 2020-21, in terms of the Levy Control Framework, increased by £2 billion to £9.1 billion—£1.5 billion above the cap, and only fractionally within the 20% headroom. That can be seen on page 23, figure 7, of the NAO Report. Although DECC has made some changes to the schemes to reduce costs, our uppermost concern today is why it took so long for DECC and the Treasury to get on top of that escalation in the projected costs for the Levy Control Framework, and why that happened. Let's start with Mr Chisholm, because I presume you've read up on all this. What is your understanding about why DECC got this so wrong?

Alex Chisholm: Going back to January and February 2015, as you say, the prediction at that time was that we would be £500 million beneath the cap set for the expansion of levies of this type. Just three months later, in April, it was discovered that the projections were going up much higher than that. They were heading towards £1 billion, and by June it was £1.5 billion over the cap. In total, there was a swing of £2 billion in the space of six months.

The main contributors to that are threefold. First, there was a big increase in the amount of deployment of the schemes at that time, particularly to do with a surge in the take-up of solar schemes, which were funded under the so-called feed-in tariffs. Secondly, there was an increase in the load factors. That accounted for about £680 million of that £2 billion swing. Thirdly, there was a decrease in the wholesale price, which accounted for £320 million. Those were the three main factors that accounted for that big increase in projected expenditure. We are talking about the years 2020-21.

In terms of understanding how that might have arisen, it is probably worth considering what goes into those forecasts. Having gone back over the record to understand how the model is constructed, I can see that there are over 500 different variables and assumptions that were used to try to project the future movement of these prices. The cumulative effect of that particular combination—that set of scenarios—of a big increase in deployment, the load factors and the wholesale price was very substantial.

That is how it arose. The second part of your question was about what the Department did about it. The Department, first of all—

Q10 **Caroline Flint:** I was not really saying that. I know what you tried to do about it. I am trying to think about why you did not forecast what the problems were. Let's just recap what you said, Mr Chisholm. You identified that there was a surge in certain areas—certainly, solar was one of them. You mentioned the load factor, and that was to do with the fact that it was not keeping up with the technology of offshore wind turbines, which ultimately meant that when the formula worked out, they ended up paying more than was projected in the cap. The final thing was the wholesale price of electricity going down. That is confirmed by Tom Kelly, who is a non-executive director of DECC. Your Department published Mr Kelly's report on Friday—we got it at 7 pm on Friday evening—but he did it back in April 2015. Is that correct?

Alex Chisholm: Yes, exactly.

Q11 **Caroline Flint:** Okay. And we only get it published a year and a half later. That's correct as well, is it?

Alex Chisholm: It is, yes.

Q12 **Caroline Flint:** And the Department's response. Let's take each of those. Let's take the surge, and let's look at solar. Back in 2011, there were clearly some issues around the popularity of solar—I remember it only too well, because I was the shadow Secretary of State for Energy and Climate Change. Wasn't there a report done, Mr Virley, within the Department to look at lessons to be learned from the surge on solar, which led to the Department having to change the parameters for that scheme? That caused a lot of angst and concern to the business sector, didn't it?

Simon Virley: Yes, the Department struggled to keep pace at that time with the falling cost of solar. Once the Chinese got involved in the manufacture of solar panels, the cost fell dramatically. That is something that caught out Governments around the world. I think you will find that in Spain, Germany and elsewhere there were significant cuts to feed-in tariffs during that time.

Yes, I think that was a particular challenge. Of course, the Government at that time did try to cut tariffs quickly and was challenged in the High Court, and indeed lost a judicial review case, which meant that budgetary control was made slightly more difficult as a result of the High Court ruling at the end of 2011.

Subsequent to that, various measures were put in place. Automatic digression was put in place. We have moved away from demand-led schemes to capped schemes, in the form of the contract for difference regime. Various other recommendations from Catherine Mawhood, who did that report for the Department at the time, were put in place, such as strengthening the commercial capability within the Department.

Q13 **Caroline Flint:** Do you agree with Mr Kelly's report? Have you had a chance to look at that, Mr Virley? I know you are not working—

Simon Virley: I'm afraid I only saw it the same time as you did, on Friday evening.

Q14 **Caroline Flint:** So you have had a chance to read it.

Simon Virley: I read it over the weekend.

Q15 **Caroline Flint:** Do you agree with his understanding of what went wrong?

Simon Virley: I certainly agree with what the permanent secretary said in terms of the three main factors that have contributed to the overspend, and that there has been a process of what I would describe as continuous improvement, certainly at the time I was there, to try to bolster commercial intelligence.

Q16 **Caroline Flint:** In his foreword on page 2 of his report, Mr Kelly writes: "I have been all too aware both of the huge complexity of the issues involved and of my own lack of expertise in this area"—he is not an energy expert—"but I have come to a very firm view about the underlying problem. That is a failure to match the inevitable uncertainties involved in making policy in such a complex environment with an adequate process of continuous assessment of the original assumptions made to form policy. That represents, to varying degrees, weaknesses in the original governance arrangements that were not rectified over time, a lack of transparency and a tendency to group think."

He also cites the report done in 2012 following the solar problems that emerged and mentions: "That the findings of this report and the 2012 Caroline Mawhood report be reviewed and incorporated in the wider change programme." That suggests to me that Mr Kelly does not believe that Caroline Mawhood's report actually was taken on board and lessons were learned. That continued and, because that was not done, more problems occurred down the road. Do you agree with his assessment on that?

Simon Virley: I can only speak for the time I was involved in the Department.

Q17 **Caroline Flint:** It was 2012 when she did her report and you left the Department in 2014. Are you saying that you took on board all of Caroline Mawhood's report and its recommendations?

Simon Virley: Yes. There was widespread discussion within the Department at that time and a number of steps were taken, including strengthening the commercial intelligence in the Department, including all major project owners doing extra training in the form of the major projects leadership academy, in terms of strengthening the evidence function.

Those processes are ongoing and I am sure that Jeremy and Alex will want to comment on what has happened over the past couple of years in that respect. Certainly, when I was there there was a widespread discussion of the results of that, and indeed we have moved away during that time from demand-led schemes, that is, "Just turn up, build and you will receive the subsidy." I think that is a major step forward for consumers.

Q18 **Caroline Flint:** I would challenge that, Mr Virley. It seems from the document from the NAO—and those Reports are agreed with the Departments concerned—that there has been considerable ongoing problems about the forecasts and being able to stem what has been a rising trajectory that is going to breach the cap within the Levy Control Framework.

Mr Pocklington, do you agree with the NAO Report, in paragraph 14, that, "The Department had not learned the lessons from previous poor forecasting. In 2011 the Department discovered that its forecasts for one Framework scheme, Feed-in Tariffs, had severely underestimated take-up."? It goes on to say, "However, the Department did not disseminate widely the findings of this review"— the Caroline Mawhood review—"nor did it establish a process to track progress against its recommendations." Do you accept that finding in the NAO Report?

Jeremy Pocklington: The Report is of course agreed. What I saw in the Department was a process of continuous improvement in forecasting and the response to the information that we found. In response to the events that happened in 2011 and 2012, the Department had taken steps to prevent cost overruns. It had cut the tariff associated with the feed-in tariff scheme from 44p to about 21p. Under the system of degression that Mr Virley referred to, that then fell to 12p at the start of 2015, so tariffs were coming down.

It had also taken action to remove large-scale solar from the renewables obligation scheme. It did that in April 2014, saving the consumer several hundred million pounds. What the Department did not anticipate was what occurred in early 2015, which was that all three factors that Mr Chisholm referred to, relating to wholesale prices deployment—not just on solar, but on other technologies as well, such as onshore wind, anaerobic digestion and offshore wind—were higher than predicted, and load factors for new technologies such as offshore wind, with larger turbines, were higher than had been forecast.

Q19 **Caroline Flint:** But do you agree that most of what you just said was a reaction to the problem, and that in itself caused quite difficult decisions for those in the solar sector, for example, who are having to respond to some changes—the moving of the goal posts? You recovered some money—nobody is saying that—but possibly at the cost of investor confidence in what was going on.

Jeremy Pocklington: What I am saying is that actions were taken before 2015, but because the nature of the projection being significantly higher was only discovered in early 2015, further actions needed to be taken then. Of course if that projection had been discovered earlier, that would have enabled action to be taken earlier and the transition path to have been smoothed.

Q20 **Caroline Flint:** I find this quite hard, if I have heard you right. You seem to be suggesting that we could not take actions before 2015, when the evidence seems to suggest that literally from 2011 on there were signs that actually the framework had some problems with it. For the record, I totally understand that this is not an exact science; this is a new area, and actually the concept of having a framework in this way is a good thing to do, to have a sense of trying to keep a cap on this area, particularly because it is bill payers paying for it. But there were signs early on, particularly with the solar situation. A report was done and Mr Kelly suggests in his report that those recommendations that actually in some ways echoed some of the problems that happened later on—in terms of some of the issues around offshore wind and the load factors there—hadn't been heeded, from that original report by Caroline Mawhood in 2012. You seem to be suggesting that somehow there was a cliff edge here, rather than a continuum, that was making this problem even worse. Is that what you are saying?

Jeremy Pocklington: I am saying that some action was taken in 2014, but further more aggressive action needed to be taken in 2015. What Mr Kelly writes in his report, in terms of the implementation of the Mawhood report, is that it was implemented at different paces in different parts of the Department, and it was implemented strongly, for example, in the area of FITs, which is where a great deal of the solar that you are referring to comes from. So of course there are lessons to learn from this. That is why the then permanent secretary and I asked Mr Kelly to undertake his report in 2015. We have been very focused now on learning those lessons and making a process of improvement.

Q21 **Caroline Flint:** Why has it taken a year and a half to publish Mr Kelly's report? You had it in April 2015, I understand. Why has it taken a year and a half?

Jeremy Pocklington: Our focus has been on implementing the report. We made the report available to the NAO. I remember the initial meeting.

Q22 **Chair:** Ms Flint has asked very clearly why it was not just published publicly when it came out.

Jeremy Pocklington: The decision that the Government took was that it was right to publish the report together with the appropriate context, and that context was provided by the consumer-funded policies report that was being been published on the same—

Q23 **Caroline Flint:** I can understand that in 2015 there was a general election imminent, and I can understand them maybe not publishing in—obviously I was involved in transition talks at the time myself with the then permanent sec of DECC. But I don't quite understand why even with the general election it has taken more than a year to publish this report. If what you are saying is you had already taken on board a lot of the recommendations anyway, you could have got it out there and all of us could have been happier that there was more transparency in this area.

Jeremy Pocklington: The decision the Government took was to publish it—

Q24 **Caroline Flint:** Who took the decision not to publish the report?

Jeremy Pocklington: It was a decision that was taken by the Department—the then Department of Energy and Climate Change.

Q25 **Caroline Flint:** They all had a big group meeting? Who took the decision? Was it the Minister or the permanent secretary?

Jeremy Pocklington: The decision was taken by the Department.

Q26 **Chair:** So the Secretary of State was ultimately responsible?

Jeremy Pocklington: The decision was taken by the Department, and the Secretary of State and accounting officer are responsible for their Department.

Q27 **Caroline Flint:** Back in January 2013, I asked a written question of Gregory Barker, who was the Minister at the time, about what was happening with the Levy Control Framework budget, which policy instruments would be able to draw on the budget and what their projected share of it would be. In answer to me, he said, "The profile of the Levy Control Framework is still being agreed, after which we will be able to determine the projected shares of the three policies (renewables obligation, small scale feed-in tariffs and contracts for difference)."

That was two years after the Levy Control Framework was meant to be up and running, and it sounded like the Department hadn't clearly sorted out what it was doing in that area.

Jeremy Pocklington: The Levy Control Framework itself was set out and agreed in 2011. Elements of the low carbon electricity generation element of the Levy Control Framework were set out in 2012, and they are the three schemes you're talking about there—the renewables obligation, the feed-in tariff and the CfD. Decisions were then taken by the Department over a number of years on exactly what the precise contribution of those different schemes would be and how the budget would be divided up between those different schemes.

Q28 **Caroline Flint:** What do you think about all of this, Mr Chisholm? You've come into the Department. What would you have done differently, in terms of forecasting and managing such a framework?

Alex Chisholm: What I have been pleased to see is that lessons seem to have been learned. I have looked very closely at the quality of reporting, the level of internal challenge and how specific people are about the management of uncertainty. In particular, each one of those forecasts are now accompanied by a high and a low estimate and a particular confidence level around that, so people have to be very explicit about what their assumptions are. We have separated out the team of analysts who put together those assumptions from the policy team who then test them, so there is a clear, internal debate around that.

I am pleased to see it has had a high level of internal challenge. Each quarter, the governance machinery—the LCF assumptions review group and the working group—report to the electricity evidence board, which is chaired by the chief scientific advisers. They carefully go through the material and then present recommendations to the electricity policy board, and the Levy Control Board, which brings in the Treasury, then considers that every single quarter. That report goes to Ministers and to me.

One of the issues that was rightly identified by Tom Kelly's report was whether enough senior attention and responsibility had been given. I would say yes, that is certainly being addressed. Also, was there enough internal challenge and testing? Yes, again, I think that is being addressed. Were people looking at combination effects in different scenarios and ranges? Yes, that is being done, too. Those aspects of making sure that we don't get surprised by future trends in forecasts have been very well addressed.

Q29 **Caroline Flint:** Are you committing publically to the Committee that we are not going to see problems emerge under your watch that have emerged under the management of the Levy Control Framework again?

Alex Chisholm: The way in which the Levy Control Framework is designed recognises that there are some real uncertainties and variable factors out there. That is one of the reasons why it has a 20% headroom. I would be confident that we are unlikely to be caught out by the factors that came together in the past and caused it to overshoot, but I would point out that there are continuing uncertainties.

In particular, we are moving away from and reducing our reliance on the renewables obligation and feed-in tariffs and moving towards a contract for difference-type approach. That has a number of strong features about it, because rather than having to react to the amount of deployment that has occurred and then trying to cap it afterwards, as happened in the past, we are able to more proactively say this is the budget that we want to allocate for this amount of support. Within the contract for difference, the amount that it costs the consumers is determined in the amount of the top-up by the wholesale price.

As we recognise, the wholesale price for fossil fuels is not an easy thing to predict. There are people all over the world trying to get that future movement right, particularly on gas. A lot of people—mostly analysts—outside the Department, let alone within the Department, didn't call it correctly in the previous phase. Currently, we keep very close to what the overall market consensus forecast is, but as the wholesale cost goes down, the cost to us of that support goes up. From the consumer perspective, they benefit from that falling cost, but the amount of the levy that is covered by the Levy Control Framework goes up.

Q30 **Caroline Flint:** I accept your point about what goes on with the wholesale costs, but my understanding is that the global slump in fossil fuel prices only accounts for £0.3 billion of the £2 billion shift in the forecast for 2020-21.

Alex Chisholm: That is correct.

Q31 **Caroline Flint:** So there are other issues here for which the Department is obviously more responsible. One of the issues is the load factor of new build offshore wind turbines. That was not updated for 18 months, despite indications during that time that it may have been contributing to an underestimation of the cost. Were you around at that time, Mr Virley, when that could have been pulled together?

Simon Virley: Yes.

Q32 **Caroline Flint:** Why was that not done? Why we were not on top of that? Ultimately, those generators had a bit of a windfall out of all that; they got subsidised more than they expected to.

Simon Virley: We did take independent expert advice. We took expert advice from Arup in 2011 and then re-consulted on the Arup data in 2013. We also had Pöyry Consulting help us in 2013 with the estimate of offshore wind load factors. It is important to remember that at the time, the UK was leading the world in offshore, as it still is today. There were no comparable data for larger turbines further from shore. We had a dataset that was principally near-shore smaller turbines, and there were no hard data yet on what these larger turbines further from shore would deliver over their lifetime. We are talking about an average load factor.

When I went to Brussels to discuss the state aid clearance on this package in the summer of 2014, the European Commission vetted all of these assumptions, consulted on them widely and confirmed that they were in line with what they had seen from other countries to date. It is a challenge to keep up with the pace of technological change. That is one reason why the Department has been trying to strengthen its commercial capability, but certainly we based our estimates on the best independent evidence we had at that time.

Alex Chisholm: May I add one point? Looking at the assumptions now, we are very careful of discriminating between existing and new build. At the time, it was the new build of these very large offshore wind turbines that were achieving the greatly improved load factors. I think that too much of the higher data the Department was considering at the time was based on the existing wind farms that were already established. They were not attaching the full weight to the more informal information coming about the new projects being built. We have adjusted our methodology to ensure it is closer to the market, and we are taking account of all available sources.

Q33 **Caroline Flint:** Again, according to paragraph 11 of the NAO Report, between 2013 and 2015 there was a two-year break between substantive exercises to gather data on technology costs, despite the fact that during this time the Department entered into £615 million of new commitments under the framework by auctioning off contracts for difference.

I am trying to understand why, given the amount of staff, the importance of this area and the fact that behind all this is the cost for bill payers, your analysts and others were not on top of this. Was it that they were doing this but it wasn't being picked up at a senior level? That is a criticism of Mr Kelly in his report. He says: "Assumptions around forecasts are made by analysts, technology and commercial experts at a relatively junior level and the dynamics underlying those assumptions are not sufficiently understood and internalised at a senior level by those accountable for the oversight of the programme as a whole."

There seems to have been a complete mismatch in terms of trying to track what I appreciate is a difficult area and the urgent need to keep on top of this and ensure good communications between those working their way through all the analysis and those who had a senior responsibility for making sure the project was kept on track. Why was that? Do you accept that point in Mr Kelly's report, Mr Pocklington?

Jeremy Pocklington: I accept that the Department did not anticipate the cohort effect that arose in load factors stemming from these new larger turbines. With perfect hindsight, of course it would have been desirable to have updated that analysis during 2014, but what we have done is put in place significant steps to improve our understanding of load factors and updated the Arup analysis, and we are now having more involved, deeper discussions about risks and uncertainties to make sure that we are on top of that issue.

Q34 **Caroline Flint:** Mr Kenward, you were not around during this time. Is that correct?

Neil Kenward: I started in my role in February 2015, so in the run-up to last year's general election, and since then I have been in this role.

Q35 **Caroline Flint:** I appreciate you were not necessarily there, but hopefully you have done your homework on what happened. The Levy Control Board—this is covered in paragraph 2.19 of the NAO Report—is the forum for Her Majesty's Treasury's oversight of the framework. That is correct, isn't it? It "did not meet between November 2013 and July 2015, by which point the Framework was already projected to exceed the cap. During this time HM Treasury's oversight consisted of participation in the budget-setting process for Contracts for Difference, as well as receiving Framework forecasts twice a year and participating in meetings" with "the Office for Budget Responsibility held with the Department in order to challenge those forecasts." Why didn't the Levy Control Board meet?

Neil Kenward: As you said, I wasn't there at the time, but it is important to know that, as you read out, there was a lot of dialogue going on between the Treasury and the Department. There were some fixed events in the fiscal calendar, the OBR forecasting period, and the Treasury was part of those challenge sessions, but that certainly isn't the only bit of the process—

Q36 **Caroline Flint:** But when you have something called the Levy Control Board, it says what should be in the tin—the levy is being controlled by a board—and it did not meet for 20 months.

Neil Kenward: My predecessor and the team would have been talking to their counterparts in DECC, as was, on a very regular basis—

Q37 **Caroline Flint:** Did you ask anybody in the Treasury before you came here today what went wrong?

Neil Kenward: I did talk to members who were in the team at the time and got their explanation of the situation and their recall of events. They said that because the forecasts were so comfortably within the cap at that time, they put their focus and energy on the new programmes that were being set up through the EMR and the FIDeR contract awards, so it was the boards that were set up to run those processes—

Q38 **Caroline Flint:** But we had already had in 2011 a surge on solar that led to a reaction by the Department to head off that getting beyond what it was already getting beyond, and we already had a report. I would hope that the Treasury had a look at Caroline Mawhood's report. Do you know whether that was read in the Treasury at all?

Neil Kenward: I don't know for sure. I imagine they would have paid attention to that report.

Caroline Flint: Perhaps you could write to us after asking someone to explain why they did not have the Levy Control Board convene for 20 months and whether anyone in the Treasury read that report and had a discussion about it.

Q39 **Chair:** Absolutely, and we are going to pick up on transparency later, but can you just be clear? If the control board had met, there would have been, I guess, minutes, paperwork, attached to that. Is there any paper trail or record of how decisions were made or of those conversations that you talk about happening in DECC?

Neil Kenward: The Levy Control Board would have met to look at the forecast spend, to challenge that, to provide a vehicle for understanding those forecasts in more detail—

Q40 **Chair:** But it didn't meet.

Neil Kenward: Well, it met during the period up to 2013, as described by the NAO. Then there was a period in which it didn't meet, and that was as I am describing, because the greatest risk to the forecast, we thought at that time, was from other things. It was those other things that we were focused on, and the Treasury was part of those discussions around the move to the CfDs—

Q41 **Chair:** But they all have an impact on the levy. Just going back to the issue of the Treasury's role in forecasting, if you go to page 35, which is the beginning of part 3 of the Report, paragraph 3.2 says, incredibly—this is obviously about DECC—"Between February 2015 and June 2015," so in the space of four months, "the Department's forecasts of Framework costs in 2020-21 shifted significantly, from £7.1 billion to £9.1 billion." That is outlined in paragraph 1.18.

One reason was "the global slump in fossil fuel prices," which most people "were not expecting." But that "represents 15%," or only £0.3 billion, "of the £2.0 billion increase between February and June…in forecast." We could pick out other examples of poor forecasting. Surely the Treasury, which was a major player in designing this whole framework in the first place, should have been more on the ball about what was going wrong with forecasting and had an input. Is that not fair to say?

Neil Kenward: The Treasury necessarily would have relied to a large extent on the Department for the deep expertise. As has already been described by colleagues, they got advice from technical experts and consultants. It would have made no sense for the Treasury to seek separate—

Q42 **Caroline Flint:** But they weren't getting it right, were they? Those experts were not getting it right.

Chair: Where was the challenge? Mr Kenward, your Department was—

Neil Kenward: As it turns out, that expert advice did not foresee the things that I think were very difficult to foresee: the rapid fall—

Q43 **Chair:** Sorry, one of the bits that was difficult to foresee was the fossil fuel prices, but that was 15%. What about the rest? You are part of the Treasury. You helped designed this—very particularly, in fact. One could say it has the Treasury's fingerprints all over it in terms of what is in and what is not in the control framework. Was the challenge not robust enough from the Treasury?

Neil Kenward: I am sure my predecessors would have provided good challenge. Mr Virley may wish to comment on the level of challenge he received. But those factors were genuinely difficult to forecast, I believe, and they came all at once, which is why the Government were genuinely surprised by the rise in forecast spend.

Q44 **Chair:** Mr Virley, what was it like from your point of view?

Simon Virley: There was a regular and robust dialogue with the Treasury all the way through this process. We had the fiscal events that Mr Kenward has referred to, where the OBR were given the DECC forecasts at that time and challenged the assumptions underpinning those. The Chancellor was chairing the Economic Affairs Committee, which was the Cabinet Committee that all major decisions had to go through, and at official level we were in constant dialogue with the Treasury throughout this period.

Internally within DECC, it was agreed that governance through this period would be through the electricity market reform executive board, which I was chairing at the time, and we were looking at the forecasts on a regular basis. That group, which included the chief scientist, the chief economist and the heads of all the technology offices, was meeting on a monthly basis. The forecasts at that time through 2014 were not showing an overspend, so under the governance rules we had agreed at the time, we did not have to escalate it through to Ministers at that point. They were being kept informed, but there was no requirement on us, because the forecasts at that time through 2014 were not showing an overspend; indeed, the forecasts right through to February 2015 were still actually showing an underspend relative to the budget of £7.6 billion. So there was a robust process of dialogue with the Treasury, in my recollection, all the way through the whole period I was there.

Q45 **Caroline Flint:** I am sure there was robust dialogue at all levels between the Treasury and DECC at the time, and no doubt the Treasury took the view after the 2011 solar surge to basically slap DECC down and tell them to sort it out. Just coming back to Mr Kenward—I would like Mr Chisholm to comment on this as well—if a board is set up to control levies, are you suggesting that it is optional for it to meet? Is that good governance?

Neil Kenward: The explanation that Mr Virley has given and that I have been trying to give is that there was a continuous dialogue. There was—

Q46 **Caroline Flint:** No, you can have a continuous dialogue via email, via phone conversation or in the margins of another meeting to discuss electricity market reform. A Levy Control Board was set up specifically to keep track between the Treasury and DECC of what was going on, share intelligence information and maybe—dare I suggest it?—even say, "What if our forecasts are wrong?" You are saying that that is not essential; you are just going to have conversations in other forums, and that is enough.

Neil Kenward: There was sensitivity analysis done by DECC at the time. The OBR provided regular challenge for the fiscal forecast. So it is not as if there was an absence of—

Q47 **Chair:** But you are missing Ms Flint's point. There was a board. There was a governance procedure, effectively, for this framework, and yet the board did not meet. Whatever other discussions were going on, ultimately that board was responsible and ultimately that board did not meet and take that responsibility. Do you agree? As Ms Flint asked, why was the board set up if it doesn't meet?

Neil Kenward: My predecessor would have been very aware that the forecast was well within the budget, and would have been having conversations about some of the underlying—

Q48 **Caroline Flint:** But the forecasts weren't necessarily showing that they were well within the budget. We know that there was an escalating trend that it was going to actually breach the cap for some time. Even though you have the buffer zone, it is not good enough to say, "We might have breached the gap but we are in the buffer zone." That is not how it is meant to operate. Mr Chisholm, what do you think about this Levy Control Board situation? We had a board and it did not meet for 20 months.

Alex Chisholm: It appears to me that there was governance, but clearly—

Q49 **Caroline Flint:** There was governance?

Alex Chisholm: There was governance, but it could have been stronger. That is clearly reflected both—

Q50 **Caroline Flint:** Then why didn't you abolish the levy control board, if all the governance was happening everywhere else? Well, not you personally because you were not there, but why do you think they did not use the Levy Control Board?

Alex Chisholm: There appears to have been a lot of governance going through the EMR board, as Mr Virley described. What I have focused on is that the NAO Report and the Kelly report have both recommended a whole set of improvements to governance. The NAO Report rightly says that the 2015 internal review—that is, the Kelly report—prompted a step change in governance. There has been a very clear attempt by the Department, working with the Treasury, to strengthen its approach to the management of these forecasts. That has helped us to get back under control and should help the Committee to feel more confident that we are on top of these forecasts for the future.

Caroline Flint: I find it difficult—I know my colleague, Mr Elphicke will come in on this—when Parliament is being told there is a Levy Control Board that has Treasury representatives on it, and they are there to safeguard the way in which the framework is operating. It seems that it is being treated as an optional extra—or not even an optional extra, because it was not actually even meeting. I find that very concerning.

Q51 **Charlie Elphicke:** Could you confirm, Mr Kenward, that the schemes as of July 2016 are expected to cost £8.7 billion, which is £1.1 billion above the cap? Is that correct?

Neil Kenward: The latest forecasts that have been published say that, but these numbers and forecasts change all the time.

Q52 **Charlie Elphicke:** No, is it correct—as of July?

Neil Kenward: I believe the latest forecasts have those numbers.

Q53 **Charlie Elphicke:** That is £110 for the average bill. It would have been £17 less without the cap having been exceeded. Do any of these numbers score against the public finances or taxation from the point of view that would concern or interest the Treasury?

Neil Kenward: They are certainly of interest to the Treasury, partly because of the—

Q54 **Charlie Elphicke:** But do they score?

Neil Kenward: They do indeed score, as they are part of the fiscal aggregate of totally managed expenditure. They are fiscally neutral, which means they are equal amounts of tax and spend.

Q55 **Charlie Elphicke:** Isn't that the point? This levy control board did not meet because the Treasury didn't care, because it did not score in any kind of way that would impact the Budget. The Treasury was woefully neglectful of the whole thing. It did not really bother with it.

Neil Kenward: I think the Treasury cares enormously about the costs on bills. As a fiscal aggregate, it matters, but it matters even more for the costs of bill payers. We certainly care. My predecessors cared and I care.

Q56 **Charlie Elphicke:** But from what we are hearing, there is a complete lack of any serious substantial supervision, because it allowed a situation to result whereby bill payers, many of whom are poorly off on fixed incomes, have to pay for all these green taxes through their power bills. The Treasury and, it seems, senior echelons, have not provided adequate supervision to protect bill payers from that.

Neil Kenward: I recognise those concerns. I point to the fact that the Government took very fast and tough action once those forecast overspends were revealed and entered the forecast. There was very fast action to try to bring those costs back under control.

Q57 **Charlie Elphicke:** But it didn't exercise oversight before that happened with a system of governance that was in place, presumably to avoid the situation where consumers end up being taken for a ride.

Neil Kenward: I point to the fact that the best information that the Department and the Treasury had at the time did not point to an overspend. When that overspend became clear, of course rapid action was taken.

Alex Chisholm: Also, those overspends were forecast overspends for the period 2020-21. For all the years that a scheme has been in place, we have not exceeded the Levy Control Framework cap by a single pound. There has been no overspend on it.

Chair: We will come to that.

Q58 **Caroline Flint:** If you turn to page 32 of the NAO Report—to continue looking at the governance situation and also assumptions about forecasts—we have been talking about the Levy Control Board, but paragraph 2.19 says: "Intelligence that senior officials received about the renewables industry was not always passed to those responsible for producing the Framework forecasts." Mr Virley, what do you have to say about that?

Simon Virley: There were extensive discussions through the electricity market reform board, which I was chairing at that time. It met on a monthly basis. It had the chief scientist, the chief economist and the heads of the renewables—

Q59 **Caroline Flint:** You said that before. I am asking you to respond to the NAO's point that information "was not always passed to those responsible for producing the Framework forecasts", which is picked up in Mr Kelly's report. Some of the junior analysts working in the Department were not always provided with intelligence from those above them to incorporate in the work they were doing to help with forecasting. Do you agree with that or not?

Simon Virley: I am giving my reflections as I remember them of that time, which was that we were meeting on a monthly basis with all the senior officials, and junior officials were joining those meetings to review the numbers.

Q60 **Caroline Flint:** When you had those meetings and you were looking at the information as it was coming in from different sources, did you have an approach that looked at a high forecast, a middle forecast and low forecast and the risks associated so that you could have a much more rounded decision? I have to say that from both the NAO Report and Mr Kelly's published report there is an indication that asking "What if our forecast is wrong?" did not happen often enough, and whether a forecast was going to go a different way was not looked at either. Therefore, contingencies were not built into the system. You had these meetings. In those meetings, what sort of discussion looked at other alternatives that might play out?

Simon Virley: Yes, we always had a high case and a low case in those forecasts. That was always included in the advice that went to Ministers. I recall we actually got the Government Actuary's Department involved in looking at the probabilities that our forecasts were wrong at the time in terms of helping us assess what the likelihood was of those high and low cases materialising.

I seem to remember for the advice that went to Ministers in September 2014, just before I left, the annexes on the sensitivities were much longer than the main submissions. So yes, I do think sensitivities were looked at. As Mr Chisholm described earlier, a number of factors then came together to mean that, with hindsight, those forecasts at that time look wrong, but at that time—through 2014—there was no forecast overspend on the Levy Control Framework.

Q61 **Caroline Flint:** There seems to be an ongoing story about DECC, because the Committee looked at the Green Deal and our report earlier this year suggested that the forecast for that was so out of kilter that it was beyond belief. Mr Pocklington, what assurances can you give that you will start to give us greater confidence about the way in which the Department tackles the forecast for the future and that there will be rigour in terms of looking not just at best-case scenarios but at worst-case scenarios and contingency plans, if for whatever reason things do not go down that middle route that so often is the gravitation for policy?

Jeremy Pocklington: I am confident that we have taken a number of steps to improve the forecasting through this process of continuous improvement and also how we use the forecast, which is really what we are talking about.

Q62 **Caroline Flint:** Can out outline some of those steps?

Jeremy Pocklington: Yes, we now have regular quarterly forecasting. When I arrived at the Department I began a systematic review of all the assumptions that underpin the forecast, focusing on those that matter most. We now have a clear assumptions log. We have audited all the models that underpin the LCF forecast—it is a very complicated process with a lot of uncertainty, as Mr Chisholm has said.

We have also taken steps to improve the multi-disciplinary way in which the forecast is produced, through establishing working groups that bring together the analysts, the engineers and the commercial experts within the Department at different levels—at working level. Then there is the electricity evidence board, where the heads of professions meet. Then there is the electricity policy board, which I chair. We also do not just rely on internal evidence; we use external experts and academics as well. We have used advice from consultancies such as Arup. We have also used Imperial College over the past 18 months.

Q63 **Caroline Flint:** Is that a change from before? One of Mr Kelly's criticisms was that the external consultants were the same group of people. He says in his report that there was a certain element of group-think. How diverse is the—

Jeremy Pocklington: I am aware of Mr Kelly's observation on that. It is a risk. This is a relatively technical area of policy, but we deliberately look to employ a range of consultants and academics in order to get a bit of diversity of thinking in our approach. You also asked about the discussion and the quality of the conversation. In these boards—particularly in the electricity policy board and the Levy Control Board, both of which I chair—

Q64 **Caroline Flint:** When did the Levy Control Board last meet?

Jeremy Pocklington: It met in October or early November.

Q65 **Caroline Flint:** This year?

Jeremy Pocklington: Yes. It has met within the past six weeks to look at the latest forecast that went into the OBR's forecast. As a matter of routine we discuss not just the forecast, but the risks around the forecast and the—

Q66 **Caroline Flint:** Which energy scheme has got the greatest risk at the moment?

Jeremy Pocklington: It is not a case of which scheme has greater or lesser risk. We have to be alive to the fact that wholesale prices are very difficult to forecast, not just for the Department, but for the wider world. I think that is recognised in the NAO Report. What is actually happening at the moment is that wholesale prices have ticked up a little bit, at least in the market. We will have to keep exploring that and examining the implications of that. That would actually reduce the amount of support required under the LCF.

Q67 **Caroline Flint:** Mr Chisholm?

Alex Chisholm: If I can add to that, our risk exposure has gone down because of the changing mix of the schemes. Within the renewables obligation scheme, one of the key factors was the rate of deployment. That was the thing that caused the big increase in 2015, and it has now effectively been closed to new applications. Banding reviews are undertaken periodically to reduce the support for particular technologies.

On the FITs side of it, we now impose a hard limit on costs, as the NAO Report described, including at the level of individual technology caps. With the process, the amount you claim goes up by volume, the price you get goes down. There is so-called tariff degression.

Those two very large schemes, which account for most of the expenditure under the Levy Control Framework at the moment, are effectively controlled by the design of the schemes. We are not exposed to the sudden increases in the rate of deployment that I think caused the issues before.

Q68 **Caroline Flint:** Are you happy, Mr Chisholm, that you have got sufficient contingency plans in place in case things do not go according to your present forecasts, which you think are more reliable?

Alex Chisholm: Yes, we are confident that we can continue to operate in the headroom provided, and comfortably so. We are still getting the benefit of the action taken with some of the cost savings. In fact, even since the projection made in July that was covered in the NAO Report, the excess projected for 2020-21 has come down by £235 million. That is moving in our favour, which is good to see.

The biggest uncertainty we face out there is the wholesale cost. If the wholesale cost goes down a lot, the cost of these schemes to us and the CFDs will go up. However, one comfort for this Committee and for all of us concerned by the impact on consumers is that consumers benefit a lot more from a reduction in wholesale cost than the cost to them of the increase in the top-up payments they receive because the CFDs—

Caroline Flint: Except that 70% of customers on the standard variable rate are paying over the odds anyway because of the way the market is structured.

Q69 **Chair:** Just before we move on to Mr Boswell, you mentioned the actuarial advice on forecasts, Mr Virley. Did the NAO see those actuarial forecasts, Mr Kell?

Michael Kell: I don't think we saw those.

Q70 **Chair:** Do they still exist?

Simon Virley: I'm afraid I am no longer in the Department, so I'm unable to comment on that.

Q71 **Chair:** Maybe the Department can answer that or give us some information on that in writing, Mr Chisholm, so we can find out what the status of those was and whether the NAO had sight of them.

Alex Chisholm: Yes.

Q72 **Chair:** Mr Pocklington, you also mentioned that the board met recently. Does it publish minutes and are they in the public domain or do they get to be in the public domain at any point? What happens to the records of those meetings?

Jeremy Pocklington: We don't publish those minutes as a matter of routine. They are internal meetings in the Department—

Q73 **Chair:** I am just asking about the status. Do you publish any outcomes from it, so that the industry has some idea of what is going on in the minds of the civil service?

Jeremy Pocklington: We don't provide a formal update to industry following the meeting. It is an internal governance meeting and I don't think it would be appropriate to provide that sort of running commentary to industry. However, of course, we do make sure that we publish the forecasts. The key for industry is transparency. Publishing the forecasts, which are essentially the outcome of—

Q74 **Chair:** We are going to come on to some of that. Finally on this, before I pass on to Mr Boswell, we have had a lot of uncertainty about the dates. Does anyone know when the Levy Control Framework Board is going to meet? Do you people know in advance? If I was in industry, would I be able to pass on some information that might be useful to the board as it makes decisions?

Jeremy Pocklington: The Levy Control Board meets on a quarterly basis in advance of preparing our forecasts.

Q75 **Chair:** Right. So it is predictable—it is supposed to be predictable—and it is now on its predictable schedule.

Jeremy Pocklington: It is on a predictable path, timed partly around fiscal events, so that we can—

Chair: Fine. So there is some predictability, so it is possible for us to know when it is going to meet.

Q76 **Philip Boswell:** I have a few questions about assumptions around forecasts, primarily directed at BEIS, the former DECC. Mr Chisholm, you stated earlier that you have learned from the previous decade of mistakes, hopefully. Does BEIS assume that all planned projects will go ahead when considering forecasts? Are all the planned projects included in forecasting?

Jeremy Pocklington: It depends on the exact scheme. For the feed-in tariff, we make an assumption on deployment that in the past has been consistent with the return that is made, but we are moving to a simpler forecast: essentially we will assume that the amount of support we are offering under the capped scheme will get spent. That is our approach.

The renewables obligation is in a process of closing and is moving towards a situation where it is in a steady state. In due course, it will be in a very long run-off, so it is not a case of new projects coming on board, although there are one or two projects still going through the grace periods.

For the CFDs, we make a judgment on when projects that have been awarded CFDs will deploy. Obviously if a project has fallen away and is not going to get a CFD, then we take it out of the forecast.

Q77 **Philip Boswell:** Something touched on by my colleague Ms Flint was the recent DECC renewable energy cancellations in solar, onshore wind, CCS, the green deal, the investment bank—the list goes on and on. Is the constant cancellation of such initiatives a significant contributing factor to why DECC forecasts were consistently out?

Jeremy Pocklington: One of the factors why the latest forecast is higher than the earlier forecast is the issue of deployment, as Mr Chisholm said. That accounts for about half of the £2 billion overspend that was discovered in the first half of 2015. However, our forecast, in terms of our projected overspend for 2020-21, has reduced since then. The tough decisions that we have had to take in the interests of consumers have driven a significant part of that. Our changes to the feed-in tariff and the deployment cap that we have introduced have saved something over £400 million for the consumer. The early closure of the renewables obligation for solar and for onshore wind has saved between £80 million and £100 million for consumers. The cancellation of the carbon capture and storage competition has saved £570 million for consumers—that was a decision taken in the November 2015 spending review. We have also avoided further cost increases; the ending of grandfathering for biomass projects in the renewables obligation has avoided a further cost risk of £500 million.

Tough decisions have been taken. This is a forecast, so other things are moving. However, our latest projection, which Mr Chisholm referred to, is that our projected spend in 2020-21 is £8.4 billion.

Q78 **Philip Boswell:** In terms of anticipation, what is BEIS doing to adjust the forecast to react specifically to lessons learnt from the past on issues. For example, is the Swansea tidal lagoon and the further extensive Welsh lagoon developments included in any future forecasting? Is there any CCS support, given the recent CCS advisory committee report—

Chair: We should say carbon capture and storage in case anyone is not aware.

Philip Boswell: Sorry, carbon capture and storage—on decarbonising the UK? I should say that I was on the advisory committee for that.

Jeremy Pocklington: The projections to 2020-21 do not include any support for either tidal lagoons or carbon capture and storage, but I will give a sentence on each of those two observations—I think that is what was behind the question. On tidal lagoons, you will be aware that the Government have asked Charles Hendry to lead a review of tidal lagoon technology, the Swansea bay tidal lagoon project, whether that is an appropriate technology for Government to support and whether it will be value for money to do so. We have not yet received his final report. We will make a decision once we receive that, and that will be a decision for the Government to take up at that point.

You asked about carbon capture and storage. As I said, as part of the tight spending review it was decided that the £1 billion of capital spend that was going to be contributed towards that technology was no longer available. That was a tough decision; it had to be traded off against money for schools and hospitals in a tight spending review. However, the Prime Minister has been clear that we continue to invest in carbon capture and storage. We spent £130 million on that, including a further £11 million of research and development money since 2015 on carbon capture and storage technologies. The issue there is that the costs of that technology need to come down. Lord Oxburgh's report, as well as advice from the Committee on Climate Change, has been very useful and valuable advice. We are considering that carefully and will set out plans in due course.

Philip Boswell: But there is no funding as it stands. I have two last points. First, going forward—this is something you mentioned earlier, Mr Pocklington—will forecasts be updated to reflect any future fluctuations in the wholesale energy prices? Then, what liaison are you having, or who in industry are you talking and listening to? We are picking up lots of anecdotal experience of industry not being listened to and engaged with.

Jeremy Pocklington: First, on the wholesale price, we will update our projections on a regular basis to take account of changing fossil fuel prices and wholesale prices. We have to decide exactly how frequently we do that, because these prices are volatile and move around, particularly in the short run, whereas what really matters is what the price is in the medium term. Our starting point is to do that annually, but, if necessary, we will update more frequently than that.

We have a lot of engagement with industry. The Department, partly as a response to Caroline Mawhood's report, has set up an investor relations unit where we have about 15 people regularly engaging with investors and with the sector to make sure that we have that regular dialogue and that understanding. I also of course meet with investors and with the sector regularly as well.

Q79 **Philip Boswell:** Finally, you said you would look to report on a regular basis. My understanding is that there have been no substantive reports since 2014, so how is that keeping interested parties informed, and what are you going to do about it?

Jeremy Pocklington: The Office for Budget Responsibility publishes forecasts twice a year on spend and to the levy control framework. On Friday the Department published its consumer-funded policies report, which set out in more detail our latest projections of spend under these and other schemes. I recognise transparency is important. We also acknowledge that we have more to do.

Chair: At this point I am going to bring in Mr Foster, who may want to ask further questions about the publication on Friday.

Q80 **Kevin Foster:** I want to start with a question to Mr Chisholm about why it has taken the prospect of an NAO Report and the prospect of today's hearing to publish the consumer-funded policies report. Why did it take the Report and the prospect of this hearing for that to happen?

Alex Chisholm: During the process of the NAO study, they were asking questions about the level of transparency that we provided. The final Report contains a clear recommendation about that. When we received that Report in October, we looked as a Department at what we could do to improve the level of transparency. We felt that it would be useful for people to be able to see—

Q81 **Kevin Foster:** To be clear, it was in reaction to the NAO coming out with the Report. It was not something you planned to do anyway.

Alex Chisholm: The NAO Report certainly influenced us in choosing to publish the consumer-funded policies report.

Kevin Foster: I'll take that as a yes.

Alex Chisholm: As well as publishing that, we also felt that if there is interest in the way we are doing our forecasting, which there clearly is in the NAO Report, and if it is of use to industry and a lot of people want to rely on those forecasts, then it would be useful for people to understand what changes we had made to the way in which we do those forecasts. That is why we published not only the Tom Kelly report but also our response to it for people to be able to understand that.

Q82 **Kevin Foster:** What was the rationale behind 7pm on Friday? Why was that seen to be the best day to produce it?

Alex Chisholm: There was no particular rationale to that at all.

Q83 **Kevin Foster:** Can I suggest it was just a handy day to put it out if it looks like you can say it was published last week? In reality, that was not a particularly convenient time for anyone to look at it. Would that perhaps be a helpful rationale?

Alex Chisholm: No, the way in which publishing works across government is that as soon as you get agreement to publish across Ministers, across the Whitehall system, it goes into the communications grid, the time is fixed and so it emerges. I do not think there is anything particularly significant. A lot of other reports came out at that time, which was busy with the autumn statement and other important announcements by the Government. It had to take its place in the queue and that is when it emerged.

Kevin Foster: At 7pm on Friday.

Alex Chisholm: I am certainly glad that it came out before this Committee had its meeting.

Chair: By the skin of your teeth.

Q84 **Kevin Foster:** Originally, it was supposed to be an annual report. We will come to the differences between the last one two years ago, which obviously speaks for itself. Will this now be an annual report that we can look forward to?

Alex Chisholm: We haven't got a settled departmental position about it, but certainly if people find the report and the information in it useful, that is something we can consider.

Q85 **Kevin Foster:** There was a previous commitment to its being an annual report to Parliament. It could not be even more specific, but it just had not been done for two years. My understanding is that it was not a change in policy.

Alex Chisholm: I think the report you are referring to in 2014 was a slightly different report.

Q86 **Kevin Foster:** It was. We will come on to that in a minute. It had a lot more detail. So there is no commitment to making this an annual report. I am just conscious that this is about how it impacts on bills for consumers, which is obviously quite a significant part of understanding this policy. Rather than being a technical discussion about forecasts and how contracts for difference work, it is actually about, for most people, what ultimately ends up on their bills. So there is not a commitment to publish it annually, then?

Alex Chisholm: We haven't reached that commitment, but if that is the recommendation of this Committee, we will certainly take that very seriously.

Q87 **Kevin Foster:** Oh well, that is interesting. Do you have anything to add to that?

Jeremy Pocklington: No. I agree with Mr Chisholm.

Q88 **Kevin Foster:** Mr Kenward, from the Treasury's point of view, would it be handy for it come out as an annual report? You said earlier in your response to Mr Elphicke that you didn't see this as separate money; you saw it, effectively, as a form of tax. Would you be looking for an annual report to come out?

Neil Kenward: It is in the gift of BEIS—the Department that owns this information—to choose how and when they publish it. As Mr Chisholm said, the advice of this Committee will be taken into account.

Chair: I think we are getting a bit confused here. Can I ask Caroline Flint to come in?

Q89 **Caroline Flint:** So the consumer-funded policies report was put out on Friday. As you said, Mr Chisholm, it is not the same as the report that my colleague was referring to, which was last presented and went to Parliament in 2014. It was a more detailed report identifying how all the different levies impact on bills. They are two separate things, aren't they, Mr Chisholm?

Alex Chisholm: Yes, they are.

Q90 **Caroline Flint:** This isn't that report, or a version of the report that we last had in 2014. When are we going to have an updated version of the one we had in 2014? Will it be published and presented to Parliament?

Alex Chisholm: That is something that we are considering. From the perspective of giving transparency to the industry and Parliament about the cost of these schemes, we think the consumer-funded report does that well. From the perspective of consumers, I would argue that what they most want to see is information on their bills—very clear bill information—and information about the alternative prices that apply in the market, which is available from public and private sources, both online and offline. Those things are extremely relevant.

Chair: Sorry, that is an awful lot of words for what is quite a simple question. I am going to bring in Kevin Foster, and then the Comptroller and Auditor General.

Caroline Flint: We just want to have the report.

Q91 **Kevin Foster:** To help, Mr Chisholm, I accept that there are all sorts of issues that we can discuss around the energy market, such as projections of bills and what the cheapest tariff is, but fundamentally this is a report about the cost that particular policies have on people's bills. Surely that is quite different. That is something that people have an interest in and wish to question.

Alex Chisholm: And the cost of that is very clearly shown in the consumer-funded report that we have just published.

Chair: That is not the answer to the question.

Alex Chisholm: What I was just trying to get into is whether it is to help consumers themselves make choices, or whether it is more to do with Parliament exercising appropriate control.

Kevin Foster: Perhaps consumers appreciate being able to understand the impact of policies on their bills. Surely that is something that most consumers would be interested in. It is not just a technical document.

Chair: But if it is reported to Parliament, we can all see it.

Sir Amyas Morse: I just want to point something out. I think it is probably conducive to confidence if, when you commit to do something, you do it. The Department committed to publish a report, and it hasn't been published. It would probably be a good idea to do what you said you would do and publish the report, rather than treating it as something that is discretionary each time in the future. You have already made a commitment to do it, so don't you think you should do it? I am speaking up about this only because there is a slightly similar trend in the debate about the Levy Control Board. Once you tell people that you are going to do something in a certain way, they have a reasonable expectation that you will do it in that way, because that's what you committed to.

This is important, because you are now coming forward very obligingly with a series of new arrangements for governance that are supposed to build up the Committee's confidence. For them to do that, the Committee has to know that when you put those arrangements in place, you intend to operate them and not regard them as discretionary. There is a need to get it straight. When Parliament receives a commitment to do something, it needs to be done, absent an explicit exchange saying that you are going to do something else. I'm sorry to be pedantic about it, but this is floating in the room and I'm just trying to bring it on to the table.

Alex Chisholm: Thank you very much. I take the point. I think that is something that we should go back and reflect on. If the previous Department—

Q92 **Chair:** You could just say yes, you are going to do it. That would be quicker.

Alex Chisholm: It's something that I need to consult on, but I certainly will consult on it.

Mr Bacon: To be clear, are you saying that you need to go back and consult on whether you are going to do what you said you are going to do?

Alex Chisholm: What the previous Department and the previous Government said it would do, yes. I need to discuss that internally.

Q93 **Mr Bacon:** And then you will come back to us, will you?

Alex Chisholm: I can either write to you or I can appear in person.

Chair: We can always call you back. You are due to come back in April, but we will touch on that towards the end.

Mr Bacon: We can always lay on a special extra session for you.

Chair: We would be very happy to do that, Mr Chisholm, but it might be easier if you just published the information. You might find your life a lot easier.

Q94 **Kevin Foster:** Well, as you are going to be consulting on whether to do it annually, we would be interested to hear about how you will be consulting on what you will actually be including in that report. As has been touched on, this year's report is much less comprehensive. For example, would you be looking to publish information regularly on the assumptions behind the levy control projections from now on, in terms of the impact they have on bills?

Alex Chisholm: I think the consumer-funded policies report contains a lot of information about the assumptions we have used.

Q95 **Kevin Foster:** I agree that it contains a lot of information, but there are points that are not in there. For example, it shows the gross costs of various consumer-funded policies but not the net costs, the estimated impacts of energy efficiency policies or the dampening effect that renewables could have on wholesale electricity prices. That might be of interest in the report.

Mr Bacon: Or the impact of the Self-build and Custom Housebuilding Act, reducing the cost of heating a house from £1,300 to £100.

Chair: Mr Bacon.

Kevin Foster: That was a yes for clarity in a future report, once you have considered whether to do it.

Alex Chisholm: Yes, certainly.

Kevin Foster: Mr Pocklington, I thought I saw you nod.

Jeremy Pocklington: I agree with Mr Chisholm. Let me say what the consumer-funded policies report does and does not include, which may help the Committee. What it does include—a lot of it is in footnotes, although some of it is in tables—is the assumptions underpinning the gross costs of the estimates of the levy-funded schemes on bills, and it sets out where you can find more detail, if that is what you want. A lot of this is available on the web, but this helps guide the user to find out where it is. What you are referring to is the actual bill impacts, including offsetting bill impacts through, for example, energy efficiency and the merit order effects—those are slightly different things.

Q96 **Kevin Foster:** Talking about impacts brings me on to the next area I was going to talk about. The report from this year focuses on the cost of policies at national level, whereas the 2014 report included an illustration of the components of a typical household bill. What is the rationale behind not including that? No, okay. The next part is also about the fact that the 2016 report does not give a breakdown by how it impacts individual users. Again, is that something that you might be looking to include in future reports, as was in the previous report two years ago?

Alex Chisholm: It sounds like it would have been of interest to the Committee, yes.

Q97 **Kevin Foster:** Is it something that you will be thinking of doing?

Alex Chisholm: We will look at that, yes.

Q98 **Kevin Foster:** Once you have considered whether to do the report and have consulted on it, do you think it will be a good idea to include that in a future report?

Alex Chisholm: Yes.

Q99 **Kevin Foster:** I am glad to get a yes, which is rather quick and simple. As we are whizzing through with the yeses and agreements, which is always welcome, what commitment do I have that, in future, the forecasts will particularly take account of what we might see in the wholesale energy prices? I accept that the levy works with those. What commitment do I have that they will be accurate and easy for consumers to understand, and not likely to change in the way that we have seen recently?

Alex Chisholm: Is this around billing information?

Kevin Foster: Yes, billing information. What we see at the end.

Alex Chisholm: The actual bill? The terms of the bills are regulated by Ofgem, and they have recently had recommendations from the CMA about how they do that. I think they have a series of tests to try to improve the way in which that information is shown to consumers, because how well that works for consumers is very important to enable people to shop around effectively and to understand the make-up of the bill. That is something that is receiving attention from Ofgem, as the regulator responsible.

Q100 **Kevin Foster:** Can I take it from that that, in future, the reports—once you have considered whether to actually produce them, of course—will show the qualifications and uncertainties associated with the forecast policy cost, given the points that have been made?

Alex Chisholm: We absolutely try to bring out the uncertainties. That has been a big theme of the whole discussion we have had today. In all our forecasts we try to bring out the uncertainties.

Q101 **Kevin Foster:** Finally, in terms of future reports, we also seek details of why the cap was only covering certain schemes and not others. Is that something else that you would be happy to say yes to as well, once you have considered whether to produce the report?

Alex Chisholm: There is a continuity point. The LCF—the Levy Control Framework—was established in 2011 and the cap was fixed in 2012. The cap has applied throughout that time—since 2012—to the cost of supporting low carbon electricity, paid for through consumer bills. It is applied to the renewables obligation, the feed-in tariffs and contracts for difference. Those have been the elements the whole way through, and a budget has been set for that, which extends to 2020-21, as have been discussing.

We are not proposing to move the goalposts now, or to take new things in or take some things out. That is the budget we have to deliver against this important national goal of trying to hit the target of generating 30% of electricity from renewable low carbon sources. Incidentally, although this has not yet been discussed by the Committee, we are actually not only on track to do that, but to exceed it. We are currently targeting 34%.

Q102 **Kevin Foster:** Are we likely to see any changes in the mix?

Alex Chisholm: Absolutely. We are forecasting a change in the mix, because of the action we described earlier—the renewables obligation is effectively being closed and feed-in tariffs have been capped in various ways. Those are going to become less important proportionately, whereas we have had two rounds of the contracts for difference now, and those will become more important over time. Effectively the contracts for difference will more or less end up replacing the ROs.

Q103 **Kevin Foster:** For clarity, in the past the focus has been purely about zero carbon. Are we likely to likely to see more focus on fuel poverty being one of the targets we look to hit as well, rather than just carbon reductions?

Alex Chisholm: Fuel poverty is a very important topic, but it is not exactly covered by the Levy Control Framework. The schemes that relate to that include ECO, which is the most important one, in terms of trying to improve the energy efficiency of houses—including to date, I think, over 1 million homes of vulnerable people. There is also the warm home discount, which is the £140 available to around 2 million households a year. Various other schemes that we have are addressing the fuel poverty area—not within the Levy Control Framework, but it is an important topic.

Sitting suspended for a Division in the House.

On resuming—

Q104 **Chair:** To follow up from the last point that Mr Foster was raising, we talked a lot about publications and I think we need to be clear what we're asking to be published: the annual report to Parliament of the details of the effect on bills. Also, I draw your attention, Mr Chisholm—you've been a bit unsure a couple of times about whether you want to publish things—to Tom Kelly's report, which recommended, "That the department regularly publishes the assumptions on which it makes its forecasts", which we touched on before the break. Are you agreeing to do that?

Alex Chisholm: We do that already, and we will continue to do that.

Q105 **Chair:** It also talked about widening the pool of external advice. On the timetable, the report obviously came out last year and, Mr Pocklington, you listed the fact that you are now meeting a lot more people from industry as part of that external advice. Is that in response to the Kelly report, even though we have only just seen it?

Jeremy Pocklington: I think it would be good practice anyway, but obviously Mr Kelly has reminded us of the importance of it, so there is a new emphasis.

Q106 **Chair:** Ms Flint and I shadowed this during the last Parliament. I think it is very welcome that industry is involved. That brings me on to Ms Flint, who is going to pick up on some points about the industry.

Q107 **Caroline Flint:** We now want to focus on the future of the framework. I have some questions about the cost to consumers that the framework creates. I also understand—I think it was mentioned today and it was part of the autumn statement—that the LCF is going to be reviewed, presumably with a report, in time for the spring budget. That is correct, isn't it?

Neil Kenward: Yes. In the autumn statement we said we would set out the future of the LCF in the spring budget.

Q108 **Caroline Flint:** Great. Thank you, Mr Kenward. I will ask some questions about what that is possibly going to look like. On the framework itself, it is a complicated area and one aspect of the framework—ironically, given the last two hours—is that it should provide a relatively simple way to assess what the costs are for consumers. However, my understanding is that the framework sets a cap on one aspect of the cost to consumers of the direct costs of support for renewable generation, which should therefore enable the Government to closely monitor those costs, although that is debatable. But the costs it caps are the not the full costs of consumer support of renewables, because they exclude—this is covered on page 20 of the NAO Report—the cost reductions for consumers that renewables bring via their dampening effect on wholesale prices and also the wider system costs of renewables, in particular the additional costs associated with limiting the impact of intermittent supply from wind and solar sources, in order to balance supply and demand. For example, if more energy comes from intermittent sources—we talked about storage earlier, but we are not completely there yet—it may mean greater reserve capacity is needed, which we will have to buy in. Mr Chisholm, could the way that renewable costs are calculated for the framework be improved to better reflect their overall affordability for consumers? If so, how?

Alex Chisholm: I think the answer is—

Caroline Flint: Have I been clear enough in my question?

Alex Chisholm: Yes. It is a category that we would regard as being total system costs. That is an extremely complex matter. We have been doing a lot of studies internally, within the Department, to try to understand that better. We have also done a lot of work with Ofgem on that, and we have recently commissioned an external expert firm, Frontier Economics, to help us fully understand the total system costs that you refer to. They are changing. It is a very fast development in the market, with the move from a very centralised generation model to one that is very decentralised.

In preparing for this event, I inquired as to how many installations benefit from the feed-in tariff at the moment, and it is about 800,000. That is a tremendously decentralised approach. Clearly, that has big implications for the future development of the grid and distribution network, and we are trying to understand fully the implications of that. We are also bearing in mind that the technologies supporting the new distribution system continue to evolve very rapidly, because of not only the needs of the energy market but battery storage particularly, because of the exciting developments in relation to electric vehicles. That category of work—total system costs—is receiving a lot of attention within the Department, with help from external experts.

Q109 **Caroline Flint:** I think that will be helpful. Knowing that and knowing how these other aspects come into play, it is important overall for the policy, but also to better understand, explain and communicate to consumers what is going on. Do you agree?

Alex Chisholm: Yes. As I said before, I think consumers are primarily interested in what the cost of energy is. That is a much more interesting topic for them than the precise historical or future components of that, but since those components drive the cost, we as a Department are very consumer-focused and want to make sure costs are as low as possible.

Q110 **Caroline Flint:** On Mr Foster's earlier point, I am not expecting this all to appear on my bill, but that is why it is important there are reports to Parliament. Both parliamentarians and those external to Parliament can then interrogate the concepts behind the framework and how things might come to play. That is a fair comment, isn't it?

Alex Chisholm: Absolutely. You're also right to say that these improvements in technology are one of the reasons why our forecasts of the future cost to consumers' bills have been reducing over time. Over the last three years, we have been able in each of those years to reduce the forecast cost to consumers in 2020-21, partly because of reductions in wholesale energy costs but also because of improvements in energy efficiency and the total system cost you just referred to.

Q111 **Caroline Flint:** Correct me if I am wrong, but it could be the case that as wholesale costs fall and renewables have an impact on that, compared with the old fossil fuel-style energy generation, it should be a lot cheaper in the long run.

Alex Chisholm: The merit order being wind.

Q112 **Caroline Flint:** But that may mean the element of the bill that is about supporting renewables—and with contracts for difference, low carbon—is likely to become bigger. Am I right on that?

Alex Chisholm: That's correct in percentage terms. That is exactly the effect we are forecasting and would expect to see, because more and more of the energy that is produced and consumed is coming from renewable sources. Those require mechanisms like contracts for difference to support them. They have a different character. Historically, if we go back 15 or 20 years, a lot of energy was coming from gas or coal. They were selling into the open market and would take the price that they could get; that was enough to keep them in business. For renewable technologies, you have these very big up-front costs to build big wind farms and things like that and then very low operating costs after that.

So most of the cost comes in that initial contract, that initial commitment of capital up front by the developer and investor, in return for which they receive this assured level of cash flow over time.

We are moving from a time when 20% of energy was coming from renewable sources—I think that was just four years ago—to the current 25% contribution. The target, as I mentioned before, is to get to 30% by 2020; we are targeting that we will be at 34%. The fact is that in four years' time a third of all the energy being generated will come from renewable sources, but the corollary of that is that a higher percentage of the bill is coming from the contracts to support that.

Q113 **Caroline Flint:** Have you had any discussions about what if the current design of the framework—following on from what you have just been saying about where we are going with deployment of renewables—might actually incentivise decision makers to cut support for renewables, precisely at the point when energy bills become more affordable? Has that been discussed in the Department?

Alex Chisholm: I'm trying to think how that works from an incentives point of view. I think that at the moment—

Q114 **Caroline Flint:** If the wholesale price of electricity is falling, you might feel, "Well, actually, we might want a cut in this area, because the wholesale costs and the price are going down, we've got enough deployment going on", and hold back.

Alex Chisholm: Not for renewable providers, because they are assured a fixed cost by reference to the strike price within the CfD. The mix within that, between the wholesale price and the top-up, is in a way—I'm not saying it's immaterial to them, but they are really primarily interested in getting their guaranteed strike price. So I don't think they have any particular incentive to game the system.

I think the issue is more that, as you referred to before, there is the intermittency aspect. The renewable providers would like to provide all the energy they can and sometimes there is more energy than we can use, and that's why we have to take capacity off the market, when we have more than we can balance in any half-hour period.

Q115 **Caroline Flint:** You mentioned earlier that there is a plan to do a review of the LCF. Could you perhaps provide more detail yourself, or perhaps Mr Pocklington or even maybe Mr Kenward could, about what that review will look at and what aspects of the review may open up to consultation? Will there actually be consultation on the review?

Neil Kenward: On the design of the future LCF into the 2020s, that is an issue that we are looking at now. We are discussing it with the Department.

You asked about consultation. That is a question for Ministers. It is not currently our intention to consult on this, but we do have a very good dialogue with the key stakeholders: industry, consumer groups—

Q116 **Caroline Flint:** I understand. Just so that I have the timeline in my head right, this was announced as part of the autumn statement and my understanding is that there will be a report on its future in the March 2016 Budget. That's correct, isn't it?

Neil Kenward: 2017—

Caroline Flint: Sorry, 2017.

Neil Kenward: The intention is to set out—

Q117 **Caroline Flint:** I'm just trying to think about a timeline here. We are heading into Christmas and everything. Three months go very quickly. You sound like you haven't even got to first base in terms of sorting out what you're doing about this review—or am I wrong?

Neil Kenward: We have been thinking about this issue for some time—

Q118 **Caroline Flint:** How long?

Neil Kenward: For many months. So, we obviously—

Q119 **Caroline Flint:** Have you decided what the review will look like, what it might involve? As I said, have you decided you'll open it up to consultation? What areas might you change?

Neil Kenward: As I say, the question of consultation is one for Ministers.

Q120 **Caroline Flint:** Has the question of consultation been discussed?

Neil Kenward: Not at this point. We discuss these issues with stakeholders and have been discussing them for a long time, because this question of the future—

Q121 **Caroline Flint:** Do stakeholders already know what the review is going to look at and what areas it might look at changing?

Neil Kenward: We will obviously look at the parameters of a future levy control framework. The objectives of that will obviously come into it—

Q122 **Caroline Flint:** Okay, but you're not telling me much detail there. I know it was announced in the autumn statement that there will be a review of the LCF and it has to report for March 2017—the Budget. I am just trying to get my head around when key decisions are going to be made about the areas it is going to cover. Will it be open to consultation before that report comes back in March?

Neil Kenward: We'll be investigating all those questions. We have already started work on it. We will be providing answers.

Q123 **Caroline Flint:** You've been doing it for months and you can't tell me what you've produced.

Neil Kenward: We haven't published anything. We are—

Q124 **Chair:** Can we be clear? The Chancellor stood up in the House of Commons and made this statement as part of the autumn statement. All the background information is there and you have been working on it for months, but you are really saying now that actually what he announced was an intention without much detail behind it and you are still working on it, and in just over three months—three and a half months—you are going to have a result.

Neil Kenward: The key question is of scope, as you say—what should and should not be in it, what the flexibilities should be and how to handle things like wholesale price volatility. These are absolutely the key questions that we are already thinking about.

Q125 **Caroline Flint:** I suppose they have been key questions for the last five years.

Chair: That is the thing. You have been looking at this for months, but you haven't got a document to unveil to stakeholders.

Neil Kenward: We haven't got an answer yet. We are working through those issues.

Q126 **Caroline Flint:** Who is leading on this in the Department? Is it you, Mr Pocklington? Are you the point person?

Jeremy Pocklington: Ultimately, as a system of budgetary control, it is the Treasury, but I lead in the Department.

Q127 **Caroline Flint:** Have you sat down with Mr Kenward and had a chat about this?

Jeremy Pocklington: We have obviously had many, many meetings about—

Q128 **Caroline Flint:** Are there minutes of those meetings?

Jeremy Pocklington: We discuss regularly—

Q129 **Caroline Flint:** Are there minutes of those meetings?

Jeremy Pocklington: We discuss regularly the policy and potential options.

Q130 **Caroline Flint:** Can I ask the question again? Are there minutes of those meetings?

Jeremy Pocklington: They are not formal governance meetings where you would expect minutes to be produced. The NAO Report itself highlights one of the key strategic choices for the future framework: what is, in essence, the reference price against which you should budget? The choice set out in the NAO Report—a choice that Ministers will obviously need to consider—is whether it is right to focus on the wholesale price as the right reference price or whether it should be a different price. That is suggested by the NAO. We have also had representations or advice from people like the Committee on Climate Change, who are looking at this, on whether we should look at a different reference price such as the cost of gas. There are pros and cons of the different approaches. That ultimately is the choice of the framework.

Q131 **Caroline Flint:** What's the standard guidance or best practice timeline for consulting on Government proposals these days? You produce a report, a Green Paper or whatever it may be. What is the timeline for people to consult on that—12 weeks, 10 weeks? What is it?

Jeremy Pocklington: It's up to 12 weeks for a consultation. There is obviously a question for Government about what the right issues to consult on are and where it is right to take a decision. That is a decision for the Government.

Q132 **Caroline Flint:** No—I understand that. I am just trying to understand the timeline here. Working back from March 2017, when we are meant to have a report on this review of the LCF, I am trying to understand whether we are going to get a consultative document at that stage or whether that should have been done ahead of the Budget or not. You haven't got an answer to that yet.

Jeremy Pocklington: The Chancellor set out that we will set out future options for the LCF in the spring 2017 Budget.

Q133 **Caroline Flint:** But will that be based on something that has been consulted on or not? Because you have got to get your act together to get that consultation document out then, haven't you?

Jeremy Pocklington: Ultimately these are questions for the Chancellor and for Treasury Ministers, obviously consulting the Government as a whole. However, it has not been standard practice to consult on budgetary frameworks. Ultimately these are decisions not for me, these are decisions for—

Q134 **Chair:** This is a slightly different budgetary framework, because of the impact on industry and the consumer.

Caroline Flint: It is the bill payers.

Jeremy Pocklington: In the Department we have been very focused on providing as much clarity as we can to industry and to bill payers. That is why we have set out our plans for further auctions of contracts for difference for projects commissioning in the early 2020s. We will be auctioning £290 million for emerging technologies in spring next year as part of an overall budget allocation this Parliament of £730 million. That has all been set out very transparently for consumers and investors, and provides confidence to the sector.

Q135 **Caroline Flint:** One of the concerns about the Levy Control Framework is the lack of rigour, in terms of challenge; the lack of accountability, given the Levy Control Board did not meet for 20 months; and the lack of transparency, given that we have not had the promised annual report to Parliament on how this has impacted on consumers' bills since 2014. We are all trying to work together to think about what the lessons learnt are—that is part of this discussion this afternoon—and how we take it forward, so I am just interested in whether there is a real commitment to learn the lessons and to do things in a different way. As part of that, if there is going to have to be a change in the Levy Control Framework—and it seems that there has to be, because there is going to be a review—is it not important that that is done in such a way as to have that rigour of external review and parliamentary review, which can only be done if a document is put out for consultation? Otherwise we are back to same old, same old, aren't we?

Jeremy Pocklington: We have very transparently set out our plans for—

Caroline Flint: No, you have not.

Jeremy Pocklington: For further deployment. That is—

Q136 **Chair:** So the contracts for difference, or—

Jeremy Pocklington: For contracts for difference and, under the feed-in tariff regime, we have set out our maximum deployment, a deployment cap of £100 million by March 2019. We have no plans for further deployment under the renewables obligation, which is in the process of closing. They are our plans. We have no further plans for deployment.

Ultimately, if it is the recommendation of this Committee that there should be some process around settling the future of the LCF, that is something that Government and Treasury Ministers will need to reach a view on.

Q137 **Caroline Flint:** But we had a strategy for deployment in which it was felt that to make sure that it was kept under some control, we needed a Levy Control Framework. That is correct, isn't it? That is where the discussions were back in 2010. Maybe there were discussions on that under the Labour Government before 2010, but they came to fruition under the last coalition Government. That is correct, isn't it?

Jeremy Pocklington: That is right.

Q138 **Caroline Flint:** And what we have found, not just at today's session, but in previous meetings of the Public Accounts Committee and, I think, of other Select Committees as well, is that there was an ambition, as you quite rightly said, Mr Chisholm, to reach 30% of our energy sourced from renewables by 2021. Yes? The Levy Control Framework was a way to support that, but set caps in different areas, conscious that bill payers were going to pay the price—to give some rigour and framework to it. Yes?

Alex Chisholm: Yes.

Q139 **Caroline Flint:** Now clearly, without going over it all again, some things did not work out quite as planned, and we ended up with some stops and starts in terms of deployment and delivery. Now we are moving into another era when yes, contract for difference will come centre stage in all of this, but is it not the case that, regardless of whether that is the strategy for how we will do deployment, there is still the need to reassure everybody—parliamentarians, the energy companies and those in the industry, because, ultimately, they might get it in the ear for what the bills are like as well—that we will have a new Levy Control Framework, or a review of it? Maybe we will get rid of it, I don't know, but we will need to have something that still underpins whatever the deployment strategies are in the Department. That is fair, isn't it?

Alex Chisholm: It has certainly been very important to date that it has been successful in the key tasks that you have described. It is very important to recognise that not only are we on target to deliver that amount of low-carbon electricity, but we have remained in budget for every year to date and—

Caroline Flint: Just.

Alex Chisholm: Where we showed a forecast, for 2020-21, going well out of track, then action was taken. From our point of view, the purpose of the framework was to give us enough time to be able to indicate, "Gosh, we are moving out of track, we need to take action." Action was taken and that has brought it back under control. So the framework, as recognised by the NAO, has been fulfilling a very important function.

I think my colleague was trying to bring out that, because the design of the scheme is changing, the utility and the particular design of the framework need to be looked at afresh. Whereas in the early years we were mainly concerned with these deployment-type things, FiTs and ROs, now we are moving into contract for difference. It is very different, and already a much more predictable game. We have already said how much budget is going to be available and we have said what the timeframe for those three auctions is going to be. We are moving into a different environment, where the uncertainty to investors, which we were worried about in the early stage, plus the overall affordability for consumers are being addressed in a different fashion.

Q140 **Caroline Flint:** Mr Chisholm, before I hand over to my colleague Mr Boswell, could you, with your Treasury colleagues, seek to write to us before the House rises for the Christmas recess, on your most up-to-date information on the review of the LCF, to include any information you can muster on what it might cover, whether it will be put out to consultation, so we have some better understanding? If the answer is you just don't know, write to us and tell us that.

Neil Kenward: Yes.

Q141 **Chair:** Before we move on to Mr Boswell I wanted to ask about unused contracts for difference. I am concerned that if it is not used for two years—if it is not used by a project they cannot be bid again by that project. The project that lost them cannot bid for them again. What about any unused ones? What happens to unused contracts for difference?

Jeremy Pocklington: This is a technical area, but let me try to explain. If a project is awarded a CFD but it falls away, either because it does not sign the contract or because it has the contract withdrawn from it because it does not meet the milestone delivery date, the project is prohibited from bidding for the next contract round, if that occurs within 13 months, with a long-stop date of 24 months, so that the budget is then effectively recycled into the Levy Control Framework for release at—well, in a scenario where we were within budget it would theoretically be released in a future round.

Q142 **Chair:** So the unused ones can come back in to help, basically, get below the cap; and that has been what happens, hasn't it?

Jeremy Pocklington: That's right. Also, where projects have fallen away we have not reallocated that spend, but used that to reduce the forecast and the projected—

Chair: Mr Elphicke has a quick point; and then Mr Boswell.

Q143 **Charlie Elphicke:** This is to Mr Chisholm; you are saying, "Oh, it's all okay. We are within the cap. We haven't reached the cap." Can you just confirm that the levies in the current year will be £132 for the average household bill but will go up to £164 by 2020 according to paragraph 1.8 on page 16 of the Report? That, on my calculations, is a rise of a quarter over the next few years to 2020.

Alex Chisholm: I think that is a figure for all of the consumer-funded energy schemes. It is not the figure for the three schemes that we are talking about here as covered by the cap, which are the EROs, the FiTs and the contracts for difference. Those are the schemes that are used to support low-carbon electricity. All the consumer schemes relate to other things as well, such as the warm home discount.

Q144 **Charlie Elphicke:** I understand that, but, from a consumer point of view, they will be looking at a situation where the consumer-funded policies will be rising by a quarter. That is quite a lot, isn't it?

Alex Chisholm: That's true, but then against that you have to see the benefit of policies, which includes most particularly very considerable gains in energy efficiency. The overall net cost of policies is positive for consumers—i.e. it is saving them money from their bills.

Q145 **Charlie Elphicke:** That is a question of policy. I don't want to intrude into that. I am just asking you to confirm the cost, because I don't think it is right for this Committee to get into questions of policy. Just in terms of cost, as well, wholesale energy costs—the prediction on page 18 is that they will fall from currently £397 to £331, which is a fall, on my calculations, of about 17%. That is the prediction, isn't it? So consumers will see the consumer-funded policies as you call them rising by a quarter, while wholesale energy cost is going to be falling—predicted—by 17%; which means that electricity bills will not fall at all because these consumer-funded policies are going up so much. Is that accurate?

Alex Chisholm: No, it's not, because the ratio by which consumers benefit from reductions in wholesale energy costs is much greater than the offsetting cost by the increases in consumer policy; it is something like a 4:1 ratio. So consumers are much better off from falling wholesale energy costs, and the extent to which they have to pay a bit extra because of these contracts for difference is much less than that. That is the reality.

Q146 **Charlie Elphicke:** So you think the rise in cost of the consumer-funded policies is a bit extra.

Alex Chisholm: It is much less than the gain they make from reductions in wholesale prices.

Q147 **Philip Boswell:** A question on investment. We have talked about investor confidence in the market. When you look at some of these major projects, the lead times on equipment can be a year or two years; planning can take several years. Investors need a stable environment in which to operate, plan ahead and finance projects. Quite often, given the sensitivity of finance costs over time, they can be the difference between whether a project goes ahead or does not.

The continuous movement of the legislative goalposts that my colleagues have touched on has moved the UK's position on the EY renewable energy country attractiveness index from seventh in 2014 to eighth in 2015 and down to 13th in 2016. For clarity, this is a key metric by which investors will review which country to invest in, and we are slipping continuously. Add to this the long list of cancelled renewable energy initiatives we have spoken about and Britain's reliance on the heavily problematic and contentious Hinkley C. Finance costs and increased risks are critical to funders in bringing investment, and investors really are not getting that warm fuzzy feeling that they did initially when they looked to invest in the UK. What are BEIS doing to assuage investors' concerns?

Alex Chisholm: First, I absolutely agree with you about the value of preserving investor confidence, for the reasons that you give—both because we need them to commit to installing this new infrastructure and because it is very relevant to the cost of capital, and that of course affects how much consumers end up paying. The Department does a lot to try to provide forward confidence about that through the Levy Control Framework—that has contributed very much to that—that is far ahead of the forward visibility of support for low-carbon energy in other countries. As a consequence—although you referred to one report, there are lots of other reports. For example, Bloomberg New Energy Finance says that the UK has been the fourth greatest investor globally over the past five years.

Philip Boswell: Has been.

Alex Chisholm: PwC says that in decarbonisation, the UK has achieved much more than Germany, the US and other major countries like that. Also, I think it is important to recognise that the proof of this comes in the pudding, in a sense: are investors willing to invest, and what is the impact on the cost of capital? As you saw, the NAO said in its Report: "Our analysis…suggests any adverse impact has not yet materialised in a major way…we have not found a noticeable increase in costs of capital." That is a very important judgment. It is one that we agree with. We have seen the same evidence. We have not seen any real adverse effects from any dip that occurred in investor confidence in 2015.

Having said that, we have redoubled our efforts to maintain investor confidence by giving as much forward visibility as possible through things like the contracts for difference—we are obviously proceeding with that auction now—and the overall framework of policy so it seems very consistent and is in place for time. We work very hard to communicate with investors. A couple of weeks ago, we put out a major report about consultation on the end of coal, and we organised a conference call with investors on that day. The call was about an hour and a half, and there were 134 investors on the line. We work very hard to make sure that people are kept fully involved. There is a proper dialogue; it is a very open dialogue. That is a big part of what we do—trying to maintain that confidence.

Q148 **Philip Boswell:** Thank you, Mr Chisholm, but that's not my experience in the industry. For the record, I was the contract lead for Shell on the carbon capture and storage project as well as other oil and gas initiatives. In the industry, we are seeing that because the RO finished early for onshore wind, quite a number of large projects will not be going ahead, and investor confidence—we're looking at capital flight. There are other factors, admittedly, but one thing is for sure: what the industry is telling me and my colleagues is that damage to investor confidence can be limited. If the LCF can be clarified into the 2020s and we stick to the plans, there is no doubt that projects that would otherwise have gone by the wayside would go ahead. It would certainly reduce the risks, and capital costs would, of course, be provided, and it would encourage investment in research and development and retention of the supply chain, which dwindles as these projects fall into misuse.

Can we please have a commitment—something that my colleague Ms Flint spoke about—that these plans will report regularly, implement the improved transparencies that Mr Foster called for, as well as call for and champion an end to the constant moving of legislative goalposts, particularly on LCF? Can we have that commitment from you in the letter that Ms Flint requested? Can you give us as much clarity about or at least a commitment to these initiatives as we can get from you?

Alex Chisholm: I think my Treasury colleague has committed that we would provide that letter before the end of the year, explaining the work going forward in relation to the future of the LCF. We can't say in that letter what it is going to be because that is going to be a decision that is to be announced in the spring.

Q149 **Philip Boswell:** But you would champion them because you understand the negative impact that constant changing has on the market and the industry.

Alex Chisholm: The most important guarantee for investors is the instruments that they actually get, so the contracts for difference. The Government have respected fully all the existing contracts that were given, have not opened up any of them. That is the biggest source of confidence to investors.

I accept that in 2015 the corrective action that was necessary to take to protect consumer bills, when we saw that forecast costs were running higher than we expected, would have affected investor confidence, particularly in those sectors that were most impacted, namely onshore wind and solar. Overall, I think investor confidence remains high. I can certainly assure you that our commitment is very strong to preserving that because we fully understand the impact on the costs of capital and, therefore, bills.

Philip Boswell: Okay. We will have to disagree on investor confidence in the market.

Q150 **Mr Bacon:** Mr Chisholm, figure 11 and, in particular, figure 4 talk about the effect of bills. I think the more interesting one is figure 4 on page 18. Figure 11 is relevant in the sense that it uses the phrase "electricity and gas" in note 1, whereas figure 4 does not specifically mention that, though I assume it is talking about the same thing.

If you look at figure 4, it is expected that the total cost within a typical household of domestic energy bills is going to fall from just over £1,300 a year or two ago to £990 in four years' time.

Presumably, if that is a typical cost, if you multiply that by the number of households in the UK you get roughly the cost to UK households of the household energy bills. Yes? Are you with me? That would make sense, wouldn't it?

Alex Chisholm: Yes, except that I think this figure is showing 2011-12 prices, which are used the whole way through the Report.

Q151 **Mr Bacon:** Let's not worry about that. I know that prices will vary. To take an example, in four years' time, £991—just under £1,000—per household, times 25 million households is roughly £25 billion or slightly less, per year as the cost to UK households of their domestic household bills. Yes?

Alex Chisholm: In 2011-12 prices, yes.

Q152 **Mr Bacon:** Sure. You can see here that it is made up of a variety of different components: the network cost, the framework policies, other energy and climate change policies and so on. What interests me is that in the commercial world, for commercial property, we know how to, and have been building for many years commercial properties, offices, shops, retail outlets that cost nothing to heat. That is normal in the commercial world. You are aware of that, are you?

Alex Chisholm: Sorry?

Q153 **Mr Bacon:** Are you aware what happens in the commercial world with new commercial properties? I was looking at a big retail outlet, the flagship Next store on the west side of Norwich. They are so energy efficient they essentially cost nothing to heat.

Alex Chisholm: Zero carbon.

Q154 **Mr Bacon:** Yes. They don't necessarily talk about it in terms of zero carbon. I was talking to the construction manager and he said, "We don't spend anything on heating this. The problem is heat gain—getting rid of it." So we have known how to do this for many years. In commercial properties, that is what happens because commercial clients insist on it. House buyers do not have the ability to insist on it, do they?

Alex Chisholm: They don't, and that's why the energy efficiency regulations that apply to all new house builds—and which, as I understand it, are as high in the UK as any other country in the world—are very rigorous. That is exactly to enable future bill payers to benefit from those huge improvements in efficiency.

Q155 **Mr Bacon:** When you say that you understand the regulations are as high as any in the world, what are you talking about? The code for sustainable homes?

Alex Chisholm: For new housing, yes.

Mr Bacon: It's not done to that at the moment though, is it?

Alex Chisholm: I don't understand what you mean.

Q156 **Mr Bacon:** The point I am trying to make is that we build commercial property that costs nothing to heat. We know how to build houses that cost nothing to heat, but we do not do so. This £1,300 down to just under £1,000 could drop significantly—by a quantum further—if we built houses that cost nothing to heat, couldn't it?

Alex Chisholm: Yes, so we have been promoting for the last several years the Department—Department of Energy and Climate Change, as it was then—working across Government with DCLG, which is responsible for housing, to try to raise the standards of housing in this country including the existing housing stock and new housing builds.

The new housing build regulations are set to a very high standard. We have a new carbon budget, and we are now moving into carbon budget 5, which applies to the period 2028 to 2032. In the spring of next year, the Government are due to commit to a new emissions reduction plan. As part of that, there will be a new set of commitments, which will include what we think should apply to the housing stock over that period.

Q157 **Mr Bacon:** I am more interested in the new housing stock. There ought to be things to retrofit better insulation and stuff, but it is much easier to get that right for the new housing stock. May I invite you to go away and examine your sentence that we have the highest standards? If you buy a new house from one of the big house builders, such as Taylor Wimpey, Persimmon or Barratt, that was finished last week or built yesterday, it will not be built to the highest standards of energy efficiency—code 6—will it?

Alex Chisholm: High standards, but I am sure there are ones that are—

Q158 **Mr Bacon:** No, my point, Mr Chisholm, is that if you buy a brand new house now from one of the volume house builders, broadly speaking that chart will be accurate. It might be slightly off—it might be 2012 prices—but broadly speaking the chart will be accurate. Whether it is £991 or £903 is really not my point. The point is that, broadly speaking, this chart will be an accurate description of the costs of energy for that house, won't it?

Neil Kenward: My understanding is that that is for the average of the housing stock expected in 2020.

Chair: Okay, we are talking on average.

Q159 **Mr Bacon:** But I know people who live in new build houses and they still spend many hundreds of pounds a year on the energy for their house. Obviously some of that is appliances and cooking, but a great deal is heating, isn't it?

Alex Chisholm: We share the objective that you espouse of trying to ensure that future housing stock is as energy efficient as it can be. We are absolutely on the same page there.

Q160 **Mr Bacon:** That interests me a lot. I am glad that we share the same objective. What interests me is that, in terms of the effectiveness of your policy—as Mr Elphicke rightly said, we are not here to question policy, and I am sure you agree—and making sure that we build houses that cost nothing to heat, there is still quite a long way to go. If you have seen what happens on the continent, they are already there now. If you go to Germany or the Netherlands, you will find that it is standard now for houses to be built that cost nothing to heat. By when will that be the case here?

Alex Chisholm: I can't tell you today. I do not know what that figure would be.

Q161 **Mr Bacon:** Can you find out by which date you expect, or the Government expect—I am delighted that you are talking to DCLG—that all houses built in the UK will essentially be built to what you call the highest standards. Code 6 is the current highest standard. It is essentially akin to Passivhaus.

Alex Chisholm: Okay.

Mr Bacon: And it will cost nothing, or next to nothing, to heat. It is possible to build a house that costs £100 a year to heat.

Chair: Mr Bacon is right to highlight this because if we do not tackle it with domestic homes, we will never meet our climate change targets.

Mr Bacon: And the point is that it is a much more significant change than anything in this bar chart.

Chair: Exactly, Mr Bacon. You are right to raise that.

Mr Bacon: While you're at it—I will finish here, Chair—I invite you to read the Self-build and Custom Housebuilding Act 2015, and section 10 of the new Housing and Planning Act 2016.

Q162 **Chair:** That and Mr Bacon's book, if I can give him another plug, are essential reading for any civil servant appearing before the Committee, I warn you. If you have not read it before this hearing, I advise you to do it next time.

Before I move on to Ms Flint, may I just ask you how the Levy Control Framework was decided originally? It does not include the energy company obligation, the renewable heat initiative, smart meters or the warm home discount, so quite a lot is not there. I understand that there is some ONS decision about what counts and what does not, so Mr Kenward can you lay out for us in simple terms why certain things were included and others were not? Was it Treasury-driven or Energy-driven? It seems to me it was Treasury-driven.

Neil Kenward: There are essentially three categories of spend here. Within the £7.6 billion—the levy control budget that we have been discussing—those are very much the low-carbon elements of spend: the low-carbon levies. That budget was set in order to try to meet the renewables target we have been discussing. There are other elements of spend that are levies, and categorised by the ONS as levies, but are not targeted under low-carbon. Technically we look at them as levies and consider them as levies—that would be the warm home discount and the capacity market. Those are Government measures that are funded through levies on consumer bills.

Q163 **Chair:** So they are costs to the consumer.

Neil Kenward: They are costs to the consumer and they are reported. They are, for example, part of the OBR's fiscal forecasts in this area. They are very much levies, but because they are not targeted under low-carbon spend—that is what that £7.6 billion budget was designed to forecast—

Chair: It is confusing people.

Q164 **Caroline Flint:** I understand the logic—part of the areas that were picked for the LCF were to do with subsidising business and all that, and then you wanted to have a look at a cap on that and how you would create the market—but that goes back to Mr Boswell's point about the certainty and continuity of these schemes. Let's take smart meters, which is over budget at the moment in terms of the trajectory of where it is going, isn't it, Mr Chisholm?

Alex Chisholm: No, it is not. We have just published a cost-benefit analysis of smart meters and those figures in terms of the benefits have changed since the last time we did them by a sum, but that basically reflects the movement of the wholesale prices in the meantime.

Q165 **Caroline Flint:** Okay. Sorry, I thought the projected costs for the smart meter programme—the installation, the kit and everything else—had gone beyond the estimated budget originally set. Is that not the case?

Alex Chisholm: It has not changed substantially, no. And the cost-benefit case is still—

Q166 **Caroline Flint:** Has it gone up, though?

Alex Chisholm: It probably has gone up a little bit, yes.

Q167 **Caroline Flint:** Okay, fine. Thank you. That is obviously to do with getting rid of estimated bills and helping people with energy efficiency. Why would you not include a cap for that? Bill payers pay towards that as well. Likewise, ECO and all these other things are all about fewer carbon emissions—because you're using less energy, because you have more energy efficiency—and therefore, to go back to the Levy Control Framework, maybe some of the problems in all this were that Ministers were chasing a carbon reduction target without being mindful of some of the issues around costs.

Neil Kenward: There is a technical reason why, which is that the ONS considers those as regulations rather than levies. However, I totally accept your point that these are costs on bills.

Caroline Flint: They are levies.

Neil Kenward: As I explained to you earlier, one of the questions we will be considering for the future of the LCF is the scope of it. We will look at exactly what is required.

Q168 **Caroline Flint:** That is really helpful. Maybe I did not pick that up earlier—I apologise for that. So part of the review of the Levy Control Framework might be to look at the scope of what should be included or not.

Neil Kenward: Absolutely to look at the scope.

Q169 **Caroline Flint:** And whether it ends up in the framework or not, there will be a discussion around these other costs to consumers on bills, and whether the ONS should review its definition.

Neil Kenward: We absolutely look at those costs anyway. We are as careful about those costs—we try to be—as about other costs on bill payers.

Q170 **Caroline Flint:** Finally, I want to recap to get this on the record. It has been said, I think by Mr Chisholm, that in response to the NAO Report and Mr Kelly's report, a much better system of gathering data, looking at forecasts and assumptions—I think quarterly reports were mentioned—is being undertaken in the Department. Will you confirm, Mr Chisholm, that you said earlier that you were looking to publish this information so that there could be external challenge to these assumptions? Did you say that?

Alex Chisholm: No. I confirm that that is the process. What Mr Pocklington and I said is that we will continue to publish the forecasts themselves and the assumptions behind them.

Q171 **Caroline Flint:** When you say that, does that mean publishing the different types of forecasts that you are looking at?

Alex Chisholm: The range of forecasts.

Q172 **Caroline Flint:** The range of forecasts. Is that right?

Jeremy Pocklington: The NAO Report includes the range. We have not published the range, and that is because the OBR forecast is based on our central forecast. Of course, we look at uncertainties as part of our internal governance.

Q173 **Caroline Flint:** Is that a no?

Jeremy Pocklington: Very clearly, we don't publish the range at the moment.

Q174 **Caroline Flint:** Would you be willing to publish it?

Jeremy Pocklington: If that is the Committee's recommendation, we will of course consider it.

Q175 **Caroline Flint:** On the transparency, the review that we just touched on explains what the framework is for, why it covers certain schemes and the logic underpinning that. Mr Kenward, you are going to write to us before the House rises about where we are on the review, what it might cover and whether it might be consulted on.

Just going back to the 2014 report to Parliament about the impact on bill payers, Mr Chisholm, could you write to us after discussions with Ministers before Christmas about whether a report in the same format as the one we had in 2014 will be published and when?

Alex Chisholm: I have certainly made a note to go back and discuss internally whether we can produce more and better information about consumer prices and bills.

Q176 **Chair:** Thank you very much. Before we finish, I want to ask about the energy company obligation. We have all had experiences in our constituencies of how there is sometimes a stop-start on this. A lot of companies out there are doing not very good work. Clearly, it is devolved down to a very local level. Can you assure us that you have got due diligence at the centre in the Department, especially now that DECC has been subsumed into BIS, to ensure that it is working well, that consumers aren't being ripped off and that companies aren't making money from doing things fraudulently? We have had some interesting examples of poor practice.

Alex Chisholm: First, if you have any information about poor practice, by all means share it with us. We would be pleased to look at it. Overall, our view is that ECO has delivered well, in terms of the number of homes that have been able to benefit from improved insulation of cavities and lofts to date. We have proposed and publicly consulted on whether we can focus it more on fuel-poor households to increase the benefit to them and to lower the overall costs of the schemes.

Q177 **Chair:** We know it has been gamed a bit. Low-energy lightbulbs are almost thrown through your letter box—not quite—and insulation is very roughly and crudely installed without a full analysis of what was necessary. Some companies are piling it high and selling it cheap, in a sense. They are not necessarily delivering a very good outcome for the household. Would you agree that it hasn't always been perfect, and that it needs strong oversight from the Department to make sure it is actually delivering on reducing our carbon and increasing the warmth of people's homes?

Alex Chisholm: It is certainly very important that the programme continues to deliver that. Again, if you have any information that we can look at and raise with the suppliers responsible, we would be very pleased to do that.

Q178 **Caroline Flint:** Obviously, energy is now part of a wider business Department, which also deals with consumer rights. When it comes to energy efficiency, will the Department look into whether it should be working with the industry on some sort of kitemark for energy efficiency products and insulation? I understand that there is a recent report—I think it is UCL, but don't quote me on that; it is in the public domain—that raised concern about the number of cases where insulation measures have been taken, but have not been not up to the standard. Householders think they have done the right thing, but that is not the case. Is the Department looking at anything along those lines to skill-up the sector and improve quality?

Alex Chisholm: Exactly that. It was done before my time, but we commissioned an independent review by Peter Bonfield and he has now delivered his advice on that. That advice absolutely squarely addresses the issues that you referred to around the benefits of the kitemark scheme, for example. That is something that we will be taking forward, yes.

Q179 **Chair:** Better late than never. Going back to the issue of reporting, Mr Pocklington, when we asked you why the Kelly report had not been published immediately or even within a reasonable timeframe, you said that the Department did not publish it. Clearly, you had a ministerial change because there was a general election. Did a Minister decide not to publish it or was it not put into the Minister's box?

Jeremy Pocklington: I would have to check the precise details—

Q180 **Chair:** When we say the Department, of course it is the Secretary of State ultimately—

Jeremy Pocklington: The Secretary of State and the accounting officer are ultimately responsible at ministerial and official level.

Q181 **Chair:** Can we just be clear which person decided not to publish it? It would be very helpful to know that; it is quite an important issue.

We have heard an awful lot of interesting stuff today. It is very important that this is got right. Some of us around the Committee table have been involved in this in different roles. It is a complicated structure that has been set up—everyone would acknowledge that—so even when it is going very well, it is going to have challenges. However, it has never been below the cap and it has always used the additional cap-plus—the headroom.

Alex Chisholm: Not to date; it has remained under the cap to date. We have not used any—

Chair: I am sorry; I am looking at the projections. Forgive me. The projections are that it will be below the headroom but not the cap, which seems extraordinary. There have been very difficult measures put in place, sometimes at very short notice, to make sure it stayed below the cap—things like the change to the feed-in tariffs—that have caused havoc in industry. I think you picked up some of the concerns from industry from Mr Boswell, who reflected them very well. There is uncertainty for the market. You have heard the Committee's concerns about the impact on levy payers and constituents and will take back those messages, although obviously we have yet to publish our Report.

We look forward to March 2017 and any information you can give us, Mr Kenward, about what is going to happen between now and then, so that we can look at that before it is published in the Budget. Of course, Mr Chisholm, you have the delight of coming back in front of this Committee in April next year. We look forward to that. You have made a number of commitments today and we look forward to talking to you then about whatever changes have been made to the Levy Control Framework as announced in the Budget. I am sure you will be well prepared for that. I thought it was worth reminding you of that six months out, so that you can be well prepared.

Thank you for coming along. The transcript will be up on the website, uncorrected, in the next 48 hours. We will obviously send you a copy. We are due to publish our Report, realistically, in the new year, but will let you know and give you a copy of that when we do so. Thank you very much indeed.