

2nd Delegated Legislation Committee Debate

Please find below a transcript:

Draft Electricity and Gas (Carbon Emissions Reduction) Order 2008

2.30 pm

The Minister for the Environment (Mr. Phil Woolas): I beg to move,
That the Committee has considered the draft Electricity and Gas (Carbon Emissions Reduction) Order 2008.

It is a pleasure to serve under you for the first time in 2008, Mr. Bercow. I shall briefly explain the purpose of the order, which I hope to be able to persuade the Committee to support. It sets the electricity and gas suppliers a target for reduction of carbon emissions in the household sector, which is the most important in terms of size, in Great Britain. The carbon emissions reduction target is known in the industry as the CERT. We held extensive informal and formal consultations on the CERT with a wide range of stakeholders—I dislike that term, but no one has come up with a better one. The formal consultation, following the informal consultation period, took place in May last year. The scheme is intended to run from 1 April this year to 31 March 2011—in other words the comprehensive spending review period. It builds upon and follows the previous two phases of what was known as the energy efficiency commitment, or the EEC—which I pronounce “eek”. The second phase of the EEC ends at the end of March this year.

The idea is that suppliers will meet their targets by encouraging and assisting household consumers to take up carbon abatement measures. Specifically, suppliers are to promote measures for the following purposes:

“achieving improvements in energy efficiency...increasing the amount of electricity generated or heat produced by microgeneration...increasing the amount of heat produced by any plant which relies wholly or mainly on wood; or...reducing energy consumption.”

By reducing carbon emissions and using energy more efficiently, household consumers will have the opportunity to reduce their carbon footprint, lower their fuel costs or be able to enjoy greater comfort—indeed, a combination of all of those three is my desire. The scheme will give particular help to low-income consumers and the elderly, who spend a larger proportion of their income on energy or are more vulnerable. Energy suppliers within the scheme will be required to achieve at least 40 per cent. of their target by directing activity at householders in receipt of income or disability benefits, or tax or pension credits. I have also included all customers aged 70 or over, who will all benefit from the scheme. We expect that that will allow CERT to contribute effectively to the alleviation of fuel poverty, as well as to the reduction of carbon emissions.

We also want to ensure that we are ready for the carbon reduction challenges ahead. CERT will introduce creative and significant support for innovation, offering

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space for energy suppliers to explore and experiment with totally new routes for carbon abatement in the household sector, including specific encouragement for microgeneration activity. The CERT has a target of delivering lifetime savings of 154 million tonnes of carbon dioxide, equivalent to annual net savings of 4.2 million tonnes of carbon dioxide by 2010, or—to put that in layperson’s terms—equivalent to the emissions from 700,000 households each year. That is twice the level of the current energy efficiency commitment and is a challenging target, but I believe that it is achievable and it will drive the effective promotion of carbon reductions in the household sector.

The cost of meeting the obligation will fall on energy suppliers. However, we expect that, even if they pass the costs on in full to customers, that would be no more than about 70p a week over the three years of the programme. Those costs are balanced by a range of direct and indirect benefits. We expect the average ongoing financial benefit for consumers in lower energy bills to be around £29 per year, for the lifetime of the measures installed, which could be up to 40 years in the case of cavity wall insulation, for example.

The regulator, Ofgem, is responsible for the administration of the CERT and the order provides the framework for Ofgem to set the targets for individual electricity and gas suppliers and to monitor their progress in achieving them. Ofgem will also be responsible for enforcement of the scheme. We intend to monitor the continuing development of the CERT ourselves. Ofgem is required to report annually to the Secretary of State on suppliers' progress towards achieving their targets.

We want to help and support householders in understanding and reducing their carbon footprint. CERT will be an important part of the process and will sit effectively with other major policies and initiatives aimed at meeting our climate change ambitions in the sector. Looking to the future, the Government have already made a commitment to some form of supplier obligation after CERT to at least 2020. The new flexibilities introduced with the scheme, including new routes for innovation and for working with those most vulnerable in our society, will offer the opportunity to prepare effectively for the new approaches.

I hope that the Committee will approve the order, which offers an excellent means of promoting carbon emissions reduction in the household sector and of providing real, practical support to consumers in reducing their bills.

2.37 pm

Gregory Barker (Bexhill and Battle) (Con): I, too, am pleased to start 2008 under your wise chairmanship, Mr. Bercow. I thank the Minister for laying the order.

We can all agree that the challenges facing us from the threat of climate change should be considered at the heart of all new legislation, such is the seriousness of the threat to us in the 21st century. The Government will always find support from my party when they introduce sound and effective legislation that endeavours to deal with the threat of global warming. The Intergovernmental Panel on Climate Change and our own scientific community and advisers largely agree that reduction of atmospheric CO₂ is at the core of avoiding a catastrophic shift in our global climate, the

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unforeseen consequences of which would be hugely damaging, both to the economy of the UK and to the health and well-being of billions of people across the globe. To that end, cutting UK emissions of CO₂ is vital.

Against the Government's poor record on reducing emissions, we must scrutinise any new legislation to ensure that it is more effective than their efforts over the past 10 years. Those attempts have seen emissions rise. The Government's own target of a 20 per cent. reduction in CO₂ by 2010 is now clearly out of reach. However, the housing stock of this country accounts for 27 per cent. of UK CO₂ emissions and is, therefore, an obvious sector in which meaningful change could yield substantial results. The carbon emissions reduction target has the potential to be an important part of a strategy to reduce our emissions.

The CERT will build upon the energy efficiency commitment, which stimulated some £600 million of investment in energy efficiency, and delivered net benefits to householders reckoned to be in excess of £3 billion. However, it is important that, in extending that successful scheme, hand in hand with stimulating microgeneration, following the Climate Change and Sustainable Energy Act 2006, we are not too quick to pick winners in the mix

of available technologies. By allowing suppliers to achieve carbon emissions reduction obligations through promoting and installing electricity and heat-producing microgen, and by increasing the heat output of wood-burning plants, the order creates a skewed market that will favour cheap, fossil fuel micro-combined heat and power and biomass boilers, rather than stimulate real investment in newer and potentially greener technologies.

I am also concerned by the substantial role that Ofgem is expected to play in the regulation and implementation of the instrument. In the recently published report, "Lost in Transmission", the Sustainable Development Commission—set up, to their credit, by the Government—demands sweeping changes to the remit and structure of Ofgem to ensure that its priorities shift to delivering a low-carbon energy supply. In developing the measure, has the Minister considered that report and the Sustainable Development Commission's criticisms of Ofgem? With Ofgem regulating the suppliers in the new scheme, will not cheap, short-term solutions and a sluggish, uncompetitive marketplace absorb the funds that should be delivering rapid and effective reductions in emissions? The accountability of the suppliers to Ofgem and its accountability to the Government in achieving those efficiency targets is also somewhat unclear. Without strong leadership, the small group of energy suppliers will not make a serious effort to meet their targets, and without the ability to hold the Government to account for those targets, they will become as inconsequential to Ministers as their 20 per cent. cut by 2010 manifesto commitment.

I am also concerned about the effect of fuel poverty. We have again seen this winter the disastrous effects of 10 years of this Government. More householders than ever find themselves unable to heat their homes as fuel costs begin to soar. Obliging energy providers to achieve 40 per cent. of their carbon emission reduction obligations by promoting measures to those on benefits and tax credits seems like a good idea and a good way

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to start tackling the issue, but I am worried that—yet again—we are not seeing joined-up thinking.

It is entirely unclear how the Government envisage the energy suppliers responding to this legislation, and it would be all too easy for the goals of the instrument to act at cross-purposes. Hastily installed compromise investments will neither provide the correct and most effective answer to fuel poverty, nor an investment in microgen that will stimulate innovation in a sector that will increasingly be called upon to answer the UK's energy needs.

My party recently published a groundbreaking and entirely joined-up policy document on decentralised energy. Reading "Power to the people", it is clear that the expansion of microgen will require a thorough and joined-up set of policies that will touch upon planning, grid infrastructure, Ofgem reform and building regulations, as well as feed-in tariffs and a long-term commitment to letting the market find the best and innovative technologies.

The instrument claims to promote microgen, but I would like to see a much more thorough exploration of the effects of new small generators on the local distribution networks. I therefore ask the Minister to explain how he will facilitate the ability of small generators to sell back to the grid, and how he will ensure that they receive a price that will both give them the return that they require and give long-term certainty to those who have invested in such new equipment.

What impact does the Minister envisage the order will have on the microgen sector and the promotion of decentralised energy? Will the spending commitment be double-counted as a fuel poverty grant and an energy efficiency grant, and perhaps even a microgen development grant, as well? How can he be sure that that will not happen?

Article 3 sets out the overall carbon emissions reduction target, which must be reached by the electricity and gas suppliers between 1 April 2008 and 31 March 2011. Article 22 requires the authority to determine whether a supplier's carbon emissions obligation has been achieved. The authority must submit a final report to the Secretary of State setting out whether each supplier's carbon emission reduction obligation and the priority group obligation under article 13 have been achieved. The authority must then report whether the overall carbon emissions reduction target was achieved. However, three years seems like a long time to leave progress unaccounted for. It will give the authority little chance to intervene if the operators are not fulfilling their obligations. Given the Government's habit of missing their targets, will there be any interim reporting to ensure that progress is made and interim targets to give the operators a trajectory for hitting the 2011 target? The Warm Front campaign, of which I have had a very good experience in my constituency and which provides grants to low-income households, currently demands in some cases a contribution from the household upon the award of a grant. Up to £800 has been demanded of householders by the installation agency in order to realise a grant of a few thousand pounds. Will the CERT scheme also use the pretext of alleviating fuel poverty to take more money, or will there be an entirely income-neutral model? Will the Minister allow fuel poverty charities such as National Energy Action to scrutinise aspects of the order relating to low-income

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households? Will he ensure that the operators or installation companies such as the Energy Action Grants Agency, which install all Warm Front-sponsored improvements, do not use the grants simply to increase their profit margins?

In cases where the grant is used to alleviate fuel poverty, will the Minister assure us that the money will be spent cost-effectively in delivering savings on the householders' heating bills rather than in compromises that will allow the operators to make reductions in their targets with Ofgem through the installation of potentially inappropriate or sometimes overpriced microgen?

I am also very concerned about how the operators will identify the 40 per cent. priority group when the authorities responsible for administering the benefits or tax credits are forbidden to disclose that information to suppliers. The Minister will agree that universal smart metering should be an important part of any raft of energy efficiency measures. Will he assure us that the grant money, welcome though it is, will not go towards subsidising the roll-out of smart meters, but that energy companies will be obliged, independently of the order, to install them?

Will the Minister also give us more detail about Ofgem's ability realistically to accredit "innovative measures for which carbon savings cannot yet be determined"?

Given Ofgem's short-sightedness in reducing emissions, I am concerned that, far from the promise that the measure will "promote innovative measures", it will in fact lead to exactly the kind of half-hearted short-termism that I mentioned earlier.

Will the Minister also account for figures such as the 50 per cent. carbon savings that suppliers can claim back from Ofgem if they make so-called market transformative actions? That sounds like an arbitrary figure that will be awarded on a murky, undisclosed basis by Ofgem, which will be working under an unstipulated definition of market transformative action. What does that phrase actually mean? Without a clear road map for transforming the marketplace and real and appropriate rewards and penalties for the operators, we will again see the operators locked in a mutually beneficial but ultimately stagnant status quo with Ofgem.

I will welcome any measures that honestly promote efficiency, as that will always be the most effective first step to countering CO₂ emissions, as well as having a very beneficial effect on fuel poverty. It is also an excellent exemplar of the financial benefits of adaptation to climate change that are so important to emphasise in showing leadership

to the industry. However, I am concerned by the lack of detail in the order, and I have reservations about the ongoing role and remit of Ofgem and its crucial role in the effective implementation of the order.

Finally, I am concerned about the fluidity of targets set by the Government and the lack of accountability through Ofgem to the Department for Business, Enterprise and Regulatory Reform. I look forward to more clarity and detail from the Minister and hope he will reassure the Committee that these measures, which have the potential to tackle climate change, stimulate

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the microgen sector and help to alleviate fuel poverty, will not, through compromise, imprecision and the ineffectiveness of Ofgem, fail in all three respects.

2.49 pm

Martin Horwood (Cheltenham) (LD): We should welcome any Government initiative that advances the battle against climate change, and reducing household carbon emissions is certainly an important part of that, through energy efficiency measures or by the use of renewable energy sources such as microgeneration. Reducing domestic energy use is one of the most cost-effective and important components of a comprehensive strategy on UK carbon emissions reduction.

The order implements proposals for a carbon emissions reduction target that is very similar in structure to the existing energy efficiency commitment, which the Minister refers to as “the eek”. I prefer to call it “the E.E.C”—I cannot think why—although I realise that might disturb Conservative Members. The question remains whether the policy is adequate.

The impact assessment that we were supplied with is interesting. I am pleased that the Government assessed the current Liberal Democrat policy, which the impact assessment, at Option 3, described as

“an obligation on energy suppliers based on a tradeable target set in terms of reducing absolute energy demand or carbon dioxide emissions from the household sector.”

The virtue of that is that it would change the economics of domestic energy supply. The key problem we face today is that if energy companies supply more energy, they make more money. We have constructed a slightly clumsy mechanism to try to encourage energy efficiency and to target vulnerable groups, but a system of tradeable targets would change the playing field in such a way that the only way in which a business could deliver growth and best value for customers would be by promoting energy use from renewable sources—allowing the business to escape the need to buy extra tradeable quotas—and by promoting energy efficiency at the domestic level.

The impact assessment seems to reject that strategy largely because it would require primary legislation. I hope that in consultations with his advisers, the Minister will consider not abandoning that option. It does not seem to have been rejected on principle, but because it is not possible within the Government’s current legislative framework. I suppose that we have to move forward from where we are now, but I hope that the Government will not lose sight of the opportunity to introduce a more radical, ambitious and fundamental reform of domestic energy markets.

As long as we remain within the framework of current legislation, it is a good idea to expand and advance the scope of the EEC. I have criticised its mechanisms to some extent in saying that the order and the system are rather clumsy, but the scheme is welcome in its targeting of vulnerable groups. It tackles the potential risk of exacerbating fuel poverty where household bills rise due to changes in domestic energy markets. If, one day, the carbon price starts to rise as envisaged by the Stern report, it will be useful to have experience of how to protect and proactively help those in actual and potential fuel poverty.

There are a few questions to be answered about that. Although there are still 4 million people in fuel poverty in this country and domestic energy costs are one of
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the most significant parts in their household budget—domestic gas prices rose by 90 per cent. between 2004 and 2006—why do vulnerable groups such as those in social housing not come within the scope of the order? According to the Renewable Energy Association there was an opportunity to include them. Encouraging microgeneration, for example, across the social housing sector would be valuable for groups in that housing in terms of lowering household fuel bills and giving them renewable energy. It would also provide an enormous boost to the microgeneration sector, which would be a valuable development.

Will the Minister tell us why occupants of social housing are not included, and why the overall percentage accounted for by vulnerable groups has dropped from 50 per cent. under the old EEC to 40 per cent. under the new CERT? I realise that that is not as bad as the energy suppliers might have wanted it to be, but it seems like an unwelcome downward drift nevertheless.

Devils are also hidden in the detail of this order. Some of them are quite complex. Let me give an example raised by the Association for the Conservation of Energy, which has spotted an anomaly in the energy saving measures applied to the vulnerable groups. It says:

“Other circumstances being equal, less carbon is saved in a Priority Group (PG) home compared with a non-Priority Group home. This is because consumers in the Priority Group tend to heat their homes insufficiently before energy saving measures are installed and then (after measures are installed) spend some of the money they have saved on their fuel bills in heating their homes to a higher level.

As a result, suppliers get fewer carbon savings (to count towards their overall CERT target) from installing the measures in PG homes”.

However the formula then used in the CERT—this is where the detail comes in—is based on the average uplift calculated according to the difference between the average savings in all homes and in non-priority group homes. Logically, the difference used should be the difference between the average savings in priority group homes and in non-priority group homes, because that is the actual uplift. The formula is logically flawed. ACE has pointed out an important flaw in the order there. This is a detailed point and I hope that the Minister will be able to write to us if he cannot answer it on the spot. Extending the scope of the EEC in the new CERT to include microgeneration is welcome, but there is a slight danger, as the hon. Member for Bexhill and Battle suggested, that it is a touch meaningless unless there is a real set of measures across Government to drive forward microgeneration. We all have in the back of our minds the fiasco of the low-carbon buildings programme and how a well meaning programme was reduced to farce in practice. We still have not found an adequate replacement for that to promote microgeneration. I would support the introduction of feed-in tariffs to promote microgeneration, as has been done very effectively in Germany where the market has taken off enormously.

Microgeneration will be crucial to delivering carbon reductions at household level. Once what are commonly called the low-hanging fruit of energy efficiency reductions have been plucked, we will need microgeneration to push carbon reductions down still further and certainly to be ready to help with the target of all new homes being zero-carbon by 2016. Yes, have a feed-in tariff at

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some stage, and why not, as the Renewable Energy Association suggests, include within the order a mandatory percentage for reductions achieved by microgeneration? There is no mandatory percentage just for microgeneration as a proportion of the whole.

The Renewable Energy Association has made numerous other suggestions, including making one of CERT's specific objectives contribute towards the European Union target of 20 per cent of total energy coming from renewables by 2020. I know that used to be a Government ambition, but they have wobbled on it slightly in recent months. Perhaps the Minister will tell us whether that 20 per cent. target remains part of Government thinking and whether he thinks the order will help to meet that target. The overall conclusion is that the measure is probably a necessary step, but certainly not a sufficient one in the battle to reduce household emissions still further. Overall the Government could have done better, but we are prepared to support the order in the short term.

2.59 pm

Mr. Woolas: I thank the hon. Members for Cheltenham and for Bexhill and Battle for making some thorough and pertinent points, all of which we have considered, many of them in great detail. They have put their fingers on our policy choices. I shall try to answer their questions, but let me do the partisan bit first. I like to get that out of the way. The hon. Member for Bexhill and Battle often talks about the need for less regulation on businesses, yet he has given us a catalogue of suggestions about how we could increase regulations on businesses.

One of the things I have tried to achieve in this scheme is to get the balance right between the regulatory burden on energy suppliers and the benefits. Of course, Ofgem is an economic regulator; that is its prime purpose and poverty alleviation measures are central to the scheme. I have placed it in an economic context to make the job of the regulator, which includes monitoring over the three-year period, more transparent. It was felt that if it was made more burdensome, it might produce more reams of paper in reports but it would not achieve anything.

My second partisan point is that the hon. Member for Cheltenham is becoming adept at quoting emissions targets to suit his argument and not the ones that matter, which are the overall emissions of greenhouse gases. We are talking specifically about CO₂ and he referred to increases in the last period, which the Government are addressing. We take the target on CO₂ and greenhouse gases very seriously and the recent announcements following the Prime Minister's speech underlined that. That is why, with our record, we can hold our heads high in Europe and in the wider world.

Martin Horwood: I am delighted to hear the Minister's new-found enthusiasm for taking into account the basket of greenhouse gases, not just carbon. Will he press his colleagues to reflect that in the Climate Change Bill, which at present includes only CO₂?

Mr. Woolas: If the hon. Gentleman can produce a beneficial worldwide greenhouse gas trading scheme, I look forward to his proposals. It is an important point that the debate concentrates on CO₂, whereas other

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greenhouse gases such as methane do 30 to 35 times more damage to the atmosphere. It is unfair to quote selectively; the figure that matters to planet Earth is greenhouse gases and this country will meet its Kyoto targets by some measure, and that is important.

I want to move on to another point of policy on which we disagree. The hon. Member for Bexhill and Battle said that he supported feed-in tariffs—I noted his words carefully. There is an important argument across the parties about whether feed-in tariffs, as experienced in Germany, are a better model than the policy of renewable obligations and other measures. However, the hon. Gentleman went on to qualify his remarks by saying that we should have feed-in tariffs and allow the market to decide. There is a contradiction in that proposition because the feed-in tariffs, I confess, deliberately skew the market. Of

course, different countries start from different points and that is the counter argument to the one advanced by the hon. Gentleman.

Gregory Barker: The Minister misunderstands how the feed-in tariffs operate on the continent. The whole purpose of those tariffs is to give each technology a similar rate of return on investment and therefore ensure that the most appropriate technology is deployed on the basis of that which will yield the greatest return based on the climatic or other prevailing conditions to even out the financial playing field. The renewables obligation certificates simply mean that we get the cheapest only, which is why there has been so little innovation.

Mr. Woolas: With respect, that is not how the German Environment Minister explained it to the United Nations. Of course, it is the rate of return on investment that counts and that is precisely how feed-in tariffs skew the market. My point is that the hon. Gentleman is telling one audience that we must have a free market and making a proposal to another audience to skew the market, which has its merits. Although the purpose of the Germans' scheme on feed-in tariffs is to protect the rate of return against fluctuations in energy prices, they would not claim that it was a free market in energy prices.

Gregory Barker: The Minister is misquoting me. To which audience did I say that we must have a free market in energy?

Mr. Woolas: To the Committee in Committee Room 9 of the House of Commons, as Hansard will record. If I have misquoted the hon. Gentleman, I will withdraw my remarks. I wrote it down at the time, and we will see what the record shows. My hon. Friend the Whip is looking at me and there are deliberations downstairs in which Members will be interested. Let me try to answer some of the other points.

The question from the hon. Member for Cheltenham about the 40 to 50 per cent. is crucial. In my opening remarks, I said that the scheme is an energy efficiency scheme. The hon. Member for Bexhill and Battle gave the figure of, I think, 27 per cent, which is the right figure for the contribution of households to emissions. The scheme addresses just under 3 per cent. of that 27

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per cent—around 1 per cent. of the total, so, it is important. As I said, it is also an attempt to address fuel poverty. Getting the balance right is important, and the inclusion of the over-70s has addressed that. I am not trying to score a point, but the hon. Gentleman said that the 40 per cent. figure was lower, but that it may reduce in a shifting of that balance. The central point in these deliberations is that the decisions were based on information and research on the carbon footprint of different types of home. It is the case that the less well off have a smaller carbon footprint. We are talking about smaller homes. Although in heating those homes they may lose the same proportion of energy in general terms, the proportions are less overall than the larger homes, where better off people tend to live.

The answer to the question asked by the hon. Member for Bexhill and Battle is to put this scheme alongside the other schemes that the Government have to address fuel poverty, which of course include the Warm Front scheme, which I think he mentioned. It also includes the Decent Homes scheme, which I think has been responsible for just under 2 million social housing improvements. As well as addressing the standard and quality of social housing, it addresses energy efficiency. I confess that there is a balance to be struck on the obligations on the energy companies to address the homes of vulnerable people. To clarify for the hon. Member for Bexhill and Battle, some of his questions were about whether there would be unintended detrimental consequences as there may be in direct grant schemes, which is why we monitor the Warm Front scheme so carefully.

However, there are no grants involved, it is money coming from energy companies. In total, we expect £1.5 billion to be spent on vulnerable households and £2.8 billion altogether on energy transformation within households in the country. It is a very significant scheme and contribution. What is the incentive for the energy companies? Is it not in their interest to sell more not less energy? That is a very sensible question, it is similar to efficiency in water companies. The answer is that the carbon market that has been created—the trading scheme—benefits those companies that reduce their carbon footprint. We have a win-win. We have more efficient households—I am told that 70 per cent. of household energy is wasted energy, particularly on heating water in an inefficient way. We have the win from households and then we have the win from how the energy generating companies reduce their carbon footprints as a result of the carbon market. That answers the hon. Member for Cheltenham's second principle question, which was about how this relates to the carbon reduction commitments at a macro level?. I recognise that the question is genuine and that it is a question of balance between the two objectives.

Gregory Barker: The Minister mentioned market transformation. That was one of my questions—he may be coming to it. Can he give us a clear definition of what “market transformation action” actually means and how it will be defined and measured?

Mr. Woolas: I was about to give a definition, which I hope that the Committee will accept is clear. I talked about “routes for innovation” within the scheme. There are two: the market transformation route and the

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demonstration route. Market transformation activity is that for which a carbon saving is known, but which is not used under the current scheme. As an incentive for these measures, new to the market, they will be attributed an extra 50 per cent. carbon saving. For example, many of our constituencies include homes where cavity insulation is not possible because there is a single skin on the outside of the house. A solid wall insulation scheme is therefore desirable so that savings in energy can be made. That reflects the fact that as we go through the years, Government schemes are dealing with more and more households. In deciding upon the targets and balances within the scheme, we must take account of how many houses we have done. It is the household that matters, rather than the person in it. Although we have some way to go on double wall cavity insulation, I am bringing on stream single wall cavity insulation, which will benefit many of our constituents.

Demonstration action—the second route—will allow energy suppliers for the first time to count towards their obligations innovation measures for which accurate carbon savings cannot yet be determined. In return for an up-front score based on the cost of the project, energy suppliers will make publicly available the results of their demonstration projects, so that we can all benefit from a better understanding of these approaches. I was asked questions about microgeneration that I have yet to answer. This relates in part to the debate about feed-in tariffs. The CERT has set a deliberately challenging target, and of course we want to encourage energy suppliers to look at a wide range of options for meeting those targets, including a significant boost in microgeneration in this country. In order to encourage energy suppliers to consider microgeneration as an effective option, we have included specific incentives for microgeneration within the CERT.

The hon. Member for Cheltenham asked why there were not mandatory targets. We decided to make the overall target mandatory. Within that, we skew it by giving incentives but not mandatory targets. I did not want it to be impossible for companies to

go beyond the maximum, and thought that an incentive scheme would be better than a mandatory target. It sometimes proves better to incentivise people than to set a
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mandatory target which is reached and not bettered. I concede that the hon. Gentleman's approach is perfectly valid. It was not one that came out of consultations as being the best option. That does not necessarily mean it is wrong, but our choice was made on balance.

Microgeneration activity will be eligible for inclusion in the CERT for the first time when we start in April 2008. It is not currently available. Those measures will make suppliers eligible for a 50 per cent. uplift on their carbon score under the market transformation route that I have just explained. As a further specific incentive for microgeneration, the amount of activity that can be incentivised will be increased from 6 per cent. of a supplier's target to 8 per cent. when they increase their microgeneration activity under the CERT to make up at least 2 per cent. of that activity. I am trying to provide an incentive to pull that up. That is equivalent to investment in microgeneration activity of £50 million—a significant amount. If suppliers were to make full use of the innovation incentive exclusively for microgeneration, it would lead to investment in microgeneration activity of four times that, for example, £200 million. We shall obviously see how that works out. The hon. Gentleman's question may well be answered by experience of the balance between letting the market decide and the incentives introduced.

In short, this country will see an increase in microgeneration as a result of the Government's scheme. Perhaps members of the Committee will say if there are any burning questions that I have not answered. I have covered all those on my list. If they have no such questions, I urge the Committee to give the scheme its support. I recognise that alternative policy decisions are perfectly legitimate. I have tried to take into account the views of the consultation and to ensure that the scheme fits alongside other schemes, both for my colleagues at the Department for Communities and Local Government, the new homes programme, our anti-poverty schemes and, most importantly, our water strategy given the amount of energy that is used in heating hot water. I hope that I have persuaded the Committee of my arguments.

Question put and agreed to.

Resolved,

That the Committee has considered the draft Electricity and Gas (Carbon Emissions Reduction) Order 2008.

Committee rose at sixteen minutes past Three o'clock.