

Friends of the Earth

Ref No: 12/0460 and 12/0461

17th May 2012

Dear

Thank you for your recent emails of 19th March 2012 in which you made the following requests for information:

Please provide me with copies of minutes of meetings between:

- Edward Davey
- Chris Huhne
- Charles Hendry
- Moira Wallace
- Simon Virley
- Jonathan Brearley

· Staff from the following teams: 'Energy Market Design', 'Security of Electricity Supply', 'EMR programme', 'Energy Economics and Analysis' and staff from the Committee on Climate Change. Minutes of meetings should include formal minutes as well as handwritten notes and notes of the meetings circulated by email, from September 2011 through to March 2012.

and

Please provide me with copies of correspondence between

- Edward Davey
- Chris Huhne
- Charles Hendry
- Moira Wallace
- Simon Virley
- Jonathan Brearley

· Staff from the following teams: 'Energy Market Design', 'Security of Electricity Supply', 'EMR programme', 'Energy Economics and Analysis' and the Committee on Climate Change.

Correspondence should include letters as well as emails, from September 2011 through to March 2012, and it should also include Government business carried out using private emails.

Although these were submitted as two separate requests I have provided a single response as the requests are closely related. Please let me know if you would like separate responses.

Your request has been considered under the Environmental Information Regulations 2004, and where appropriate, the Freedom of Information Act 2000. Following careful consideration, I can inform you that we have decided not to disclose some of this information.

I enclose a copy of the information which can be disclosed:

- Email from David Kennedy to Simon Virley and Jonathan Brearley and attachment (letter to Chris Huhne from Adair Turner), dated 29th September 2011
- Letter to Adair Turner from Chris Huhne, dated 31st October 2011
- Letter to Chris Huhne from Adair Turner, dated 20th December 2012
- Letter to Adair Turner from Chris Huhne, dated 16th January
- Email from David Kennedy to Simon Virley and attachment (Letter to Edward Davey from Adair Turner) dated 27th March 2012

The remainder of the information requested is being withheld as it falls either under the exception in Regulation 12(4)(e) of the Environmental Information Regulations 2004 which relates to Internal Communications, or the exemption under section 41 of the Freedom Of Information Act 2000 which relates to Information Provided in Confidence.

The rationale behind exception 12(4)(e) of the Environmental Information Regulations 2004 is that it is often in the public interest for public authorities have a private space within which to think through and develop policy, including advice provided by third parties. The Committee On Climate Change is a statutory body established to advise government, and internal communications between it and DECC sometimes need to be done in such a space.

In applying this exception we have had to balance the public interest in withholding the information against the public interest in disclosure. The factors we considered in deciding where the public interest lay are: the need for transparency and increased accountability for decision making and policy development; the need for a safe space in which policy can be developed, and Ministers and officials can conduct rigorous and candid assessments of their policies without premature disclosure which might close off further discussion and the development of better options; and the risk that expert bodies such as the Committee on Climate Change may be deterred from providing frank and open advice.

Having considered the public interest and presumption in favour of disclosure stated in Regulation 12(2), we are satisfied that the balance of public interest favours withholding the information.

The rationale behind the exemption under section 41 of the Freedom Of Information Act 2000 is that the information was of a personal nature and provided in confidence. This is an absolute exemption and the application of the public interest test is not required.

If you are unhappy with the way the authority has handled your request, you may ask for an internal review. Please contact Catherine Harding (catherine.harding@decc.gsi.gov.uk)

who will arrange an internal review of your case. Under Regulation 11(2) this needs to be done no later than 40 working days after the date of this letter. If you are not content with the outcome of the internal review, you have the right to apply directly to the Information Commissioner for a decision. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF

If you have any queries about this letter please contact me.

Head of Knowledge and Information Management
Department of Energy and Climate Change

From: Kennedy, David (CCC)
Sent: 29 September 2011 17:02
To: Virley Simon (Energy Strategy & Futures); Brearley Jonathan (Energy Markets & Networks)
Subject: FW: EMR letter

Hello guys

fyi – and happy to discuss.

Cheers

David

From:
Sent: 29 September 2011 16:08
To:
Cc: Kennedy, David (CCC)
Subject: EMR letter

Good afternoon

Please find the attached letter from Lord Adair Turner, Chairman of the Committee on Climate Change. A hard copy has also been posted.

<<EMRletter29sept.pdf>>

Thank you

Best wishes

we have moved, please note our new address:

Committee on Climate Change

7 Holbein Place

The Rt Hon Chris Huhne MP
Secretary of State
Department of Energy and Climate Change

29 September 2011

Dear Chris

I am writing to welcome your Electricity Market Reform White Paper and the Renewable Energy Roadmap, to highlight some of the challenges we see in designing an implementing framework, and to inform you of our ongoing work programme in this area.

In particular:

- We strongly support the proposed reforms, particularly the introduction of long-term contracts for low-carbon investments.
- We stress the need to set clear objectives to underpin new arrangements; the appropriate objectives and contracting strategy will now be our key area of focus.
- We note the need for objectives, contracting strategy and contract design to reflect significant uncertainty over demand and costs.
- We recommend that you extend the approach to offshore wind in the Renewable Energy Roadmap, setting ambition for less mature technologies to 2030 subject to cost conditions being met, in order to support supply chain investment.

Achievement and challenges in developing new electricity market arrangements

We regard the model based on long-term Contracts for Differences set out in the White Paper as a very significant step forward to improving the investment climate for low-carbon power generation. It provides a good foundation for early power sector decarbonisation, which is a central pillar of wider economy decarbonisation required to meet carbon budgets.

It is now of crucial importance to underpin the new arrangements with a clear set of objectives (i.e. the pace and level of decarbonisation and deployment of less mature technologies aimed for), and a set of contracting arrangements to achieve those objectives.

Setting objectives to reflect demand and cost uncertainties

In our advice on the fourth carbon budget, we recommended that objective should be to reduce average emissions to around 50 gCO₂/kWh by 2030 through addition of 30-40 GW (baseload-equivalent) of low-carbon capacity through the 2020s; this is embodied in the budget legislated by Parliament in June.

In finalising this objective and developing a contracting strategy, it will be important to fully assess the implications of significant demand and cost uncertainties, both of which are fundamental to the economics of investment in low-carbon generation:

- There is significant demand uncertainty relating to the next two decades. For example, baseload demand could change by around 25% to 2030 depending on how quickly electric vehicle and heat markets develop (see Attachment 1). This is important given that the economics of low-carbon plant are highly sensitive to the load factor at which this plant operates (see Attachment 2).
- There is also significant uncertainty over future costs of low-carbon generation, with a range of +/- 35% for nuclear, 25% for offshore wind, and 50% for CCS generation (see Attachment 3). The wide range for costs reflects uncertainty over construction costs and, in the case of CCS, uncertainty over fossil fuel prices; uncertainty over the cost of capital would increase these ranges further.

We have set out high-level assessments in our fourth budget report, our Renewable Energy Review, and our letter in March 2011, suggesting that our recommended objective is robust to these uncertainties; a more detailed assessment is required to finalise the objective and set a suitable contracting strategy.

Therefore going forward, in making final recommendations for the appropriate objective and underpinning contracting strategy, we will undertake and reflect detailed assessment of demand and cost sensitivities.

We will report this work back to you directly, but also include it in our progress reports to Parliament, and the 2013-14 review of the fourth carbon budget.

Providing confidence for supply chain investment and technology development

On technology policy, we support your proposal to link the level of ambition for offshore wind to cost, as set out in the Renewable Energy Roadmap. However, as currently proposed, there still exists a cliff edge at 2020, which *must* undermine prospects for required supply chain investment. We therefore recommend that you extend the principle in the Renewable Energy Roadmap (i.e. set minimum levels of ambition for less mature technologies subject to meeting of cost conditions) to 2030 in order to support supply chain investment which will in turn result in innovation and cost reduction.

Designing contracts to reflect uncertainties

We also note that demand and cost uncertainties raise important questions around detailed contract design:

- Given demand uncertainty, and the possibility that some plant may operate only partially loaded, it may be appropriate that Contracts for Differences include both capacity and variable elements, as in standard Power Purchase Agreements currently in place around the world.
- Given cost uncertainty, it may be appropriate to introduce partial risk sharing for those costs over which investors have limited control. These may include exogenous elements of construction cost for nuclear, wind and CCS power generation, and fuel costs in the context of gas CCS. This could be achieved through indexing of Contracts for Differences, or the equity co-sharing model that has been proposed by various industry players.

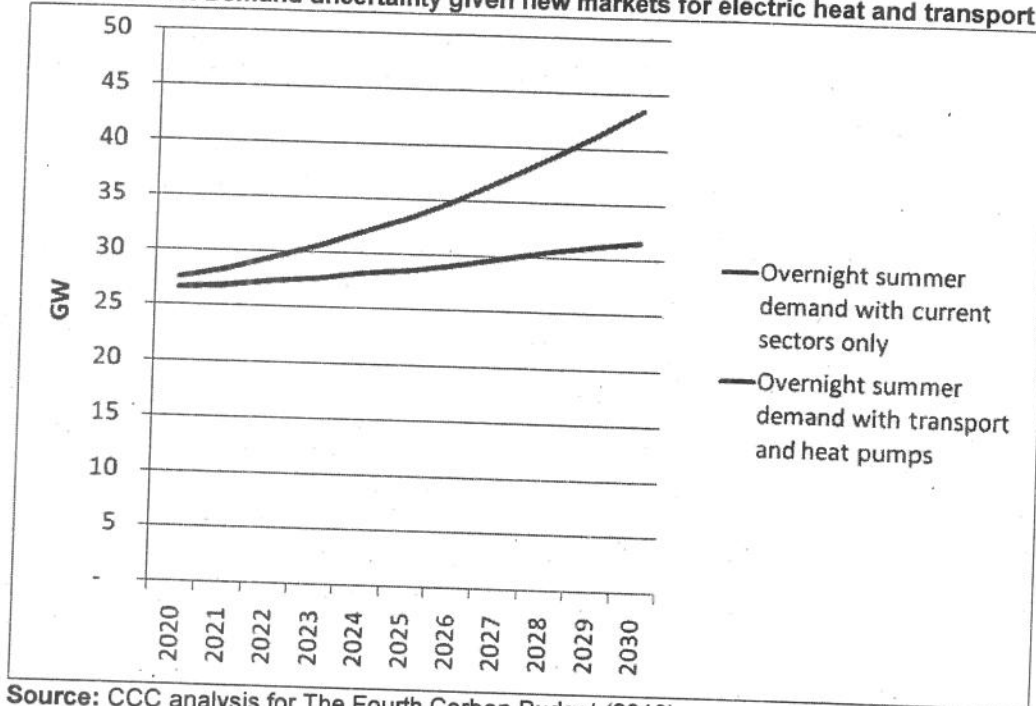
These options for contract design should be seriously considered by the DECC team taking forward the EMR. We will monitor progress closely here, given that contract design will be a key determinant of consumer cost and ultimately the political acceptability of the new arrangements.

I look forward to continuing to work with you on development of the EMR and other issues central to achieving carbon budgets.

Best wishes,

Adair Turner
Chairman, Committee on Climate Change

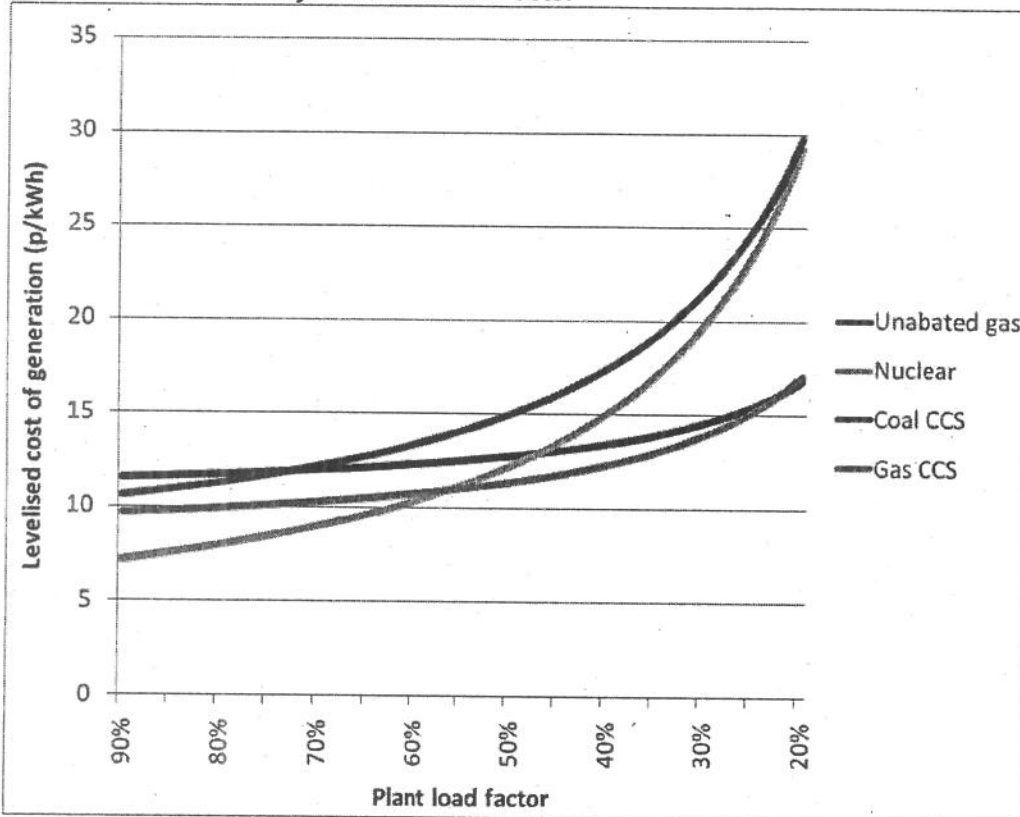
Attachment 1: Demand uncertainty given new markets for electric heat and transport



Source: CCC analysis for The Fourth Carbon Budget (2010)

Notes: Demand is lower in summer and overnight, so summer overnight demand represents demand that will be on the system throughout the year.

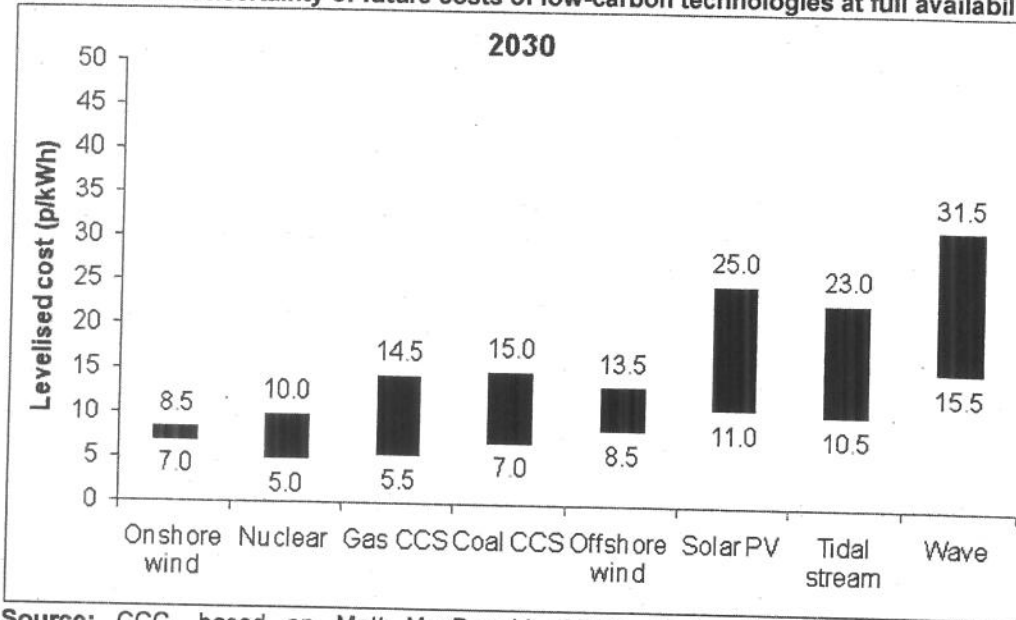
Attachment 2: Sensitivity of costs to load factor



Source: CCC calculations, based on Mott MacDonald (2010) *UK Electricity Costs Update* and (2011) *Costs of low-carbon generation technologies*.

Notes: 2010 prices. Costs are for projects starting construction in 2030, and are based on central capital, fuel and carbon prices and a 10% discount rate.

Attachment 3: Uncertainty of future costs of low-carbon technologies at full availability



Source: CCC, based on Mott MacDonald (2011) *Costs of low-carbon generation technologies*.

Notes: 2010 prices, using a 10% discount rate and high-low range estimate for capex and fuel prices. Projects starting construction in 2030. CCS includes a carbon price for residual emissions (high-low range). Excludes additional system costs associated with intermittency (e.g. back-up and interconnection) and possible transmission savings for solar.



The Rt Hon Chris Huhne MP
Secretary of State

Department of Energy & Climate Change
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Our ref: MC2010/17736/JG

Lord Turner
Chairman
Committee on Climate Change
7 Holbein Place
London
SW1W 8NR

31 October 2011

Thank you for your letter dated 29 September about the Electricity Market Reform White Paper and the Renewable Energy Roadmap.

The Government welcomes the Committee's recognition of long-term Contracts for Difference (CfD) as a very significant step forward in improving the investment climate for low carbon power generation. As set out in the White Paper, we have a shared vision that power sector emissions need to be largely decarbonised by the 2030s and the proposed reforms are a toolkit that can be used to achieve any desired level of decarbonisation.

The Climate Change Act 2008 requires the Government to publish a report outlining the policies and proposals to meet the Fourth Carbon Budget and preceding budgets as soon as possible after setting the level in legislation. We are also obliged to explain how these plans are consistent with a credible pathway to 2050. We are currently working towards this publication, in collaboration with other Government Departments, and aim to publish it this autumn. We will address the Committee's recommendations for a carbon intensity target for the electricity sector and our ambition for renewable technologies beyond 2020 as part of this publication.

Although our own estimates of uncertainty around future demand and generation costs differ from the Committee's, the Government recognises the need to reduce uncertainty for investors in low carbon generation and the EMR package will provide the stable financial incentives needed to drive the decarbonisation of the electricity sector over the medium and longer-term. Evidence suggests that the likelihood of supply from low carbon plant being greater than demand in the future is low, until at least 2030. Therefore demand uncertainty for CfD supported plant is also low. In addition, if the CfD is paid on output, supported plant will continue to run even when prices are lower than their marginal costs in order to access support. Therefore CfD supported plant will only be affected if they are constrained off by the system operator in the balancing mechanism, and they will only be detrimentally affected if these constraint payments are less than they would have earned if they had been able to access support. We are also considering whether to pay the CfD on the basis of availability.

Paying the CfD on availability would eliminate demand uncertainty and would retain dispatch efficiency but has a number of disadvantages, including removing the direct link between support and low carbon generation. We are currently commissioning analysis to inform the question of whether to pay on output or availability and would be happy to share this analysis with the CCC as it develops.

The aim of EMR is specifically to address revenue risk for low carbon generators rather than construction risk. Low carbon generators are best placed to manage construction risk, whereas revenue risk is largely caused by fossil fuel price volatility. In addition the White Paper ruled out linking support to fuel costs for biomass generation, partly on the basis that generators were better placed to manage this risk than Government. DECC is still considering whether a link to the input fuels for gas and coal CCS is justified, particularly in the context of the CCS demonstration projects.

I would like to thank the Committee for your continuing support in the achievement of the carbon budgets and look forward to continuing to work with you on the development and implementation of the EMR and the Renewables Energy Roadmap, both of which will play a key part in driving the transition to a low carbon and prosperous future.

IRIS HUHNE

The Rt Hon Chris Huhne MP
Secretary of State
Department of Energy and Climate Change

20 December 2011

Dear Chris

Proposals for the Green Deal / Energy Company Obligation

I am writing to you to express the concern of the Committee on Climate Change about some of the detailed proposals for the Green Deal and the Energy Company Obligation (ECO).

In particular, DECC's draft Impact Assessment notes that loft and cavity wall insulation account for much of the cost effective potential to improve energy efficiency in the residential sector, but projects that implementation of these measures will be very limited under the proposed policy approach. This is consistent with our own assessment, as set out in our third progress report to Parliament.

Low uptake would be problematic given the need to insulate lofts and cavity walls to meet carbon budgets, and to mitigate energy bill impacts from investment in low carbon power generation.

There has been good progress insulating lofts and cavity walls under the current Carbon Emissions Reduction Target (CERT) policy. We therefore propose that the new policy should build on this, and that DECC / the Government should seriously consider including full potential for loft and cavity wall insulation in the ECO.

The result would be a level of policy ambition that addresses much more of the potential for emissions reduction than the low level likely under the current proposal (e.g. 4-5 MtCO₂ in 2020 rather than 2 MtCO₂), while still achieving other policy objectives to contain funding costs and develop new markets for energy efficiency.

More details are included in an attachment to this letter.

We are putting the letter in the public domain to promote debate and discussion in a crucial area for achievement of carbon budgets and mitigating energy bill impacts.

Yours ever

Adair Turner, Chair, Committee on Climate Change

cc. Greg Barker, Minister for Energy and Climate Change

Attachment: the need to increase loft and cavity wall insulation under the Green Deal and the Energy Company Obligation

Strengths in the proposed approach: solid walls, the non-residential sector

Proposals for the Green Deal and the Energy Company Obligation (ECO) include a range of innovative approaches (e.g. provision of information, accreditation of suppliers, brokering arrangements to support development of new markets for energy efficiency in conjunction with the ECO, a new financing instrument, regulation of the private rented sector, and performance monitoring).

These could encourage uptake of solid wall insulation in the residential sector, energy efficiency improvement in the non-residential sector, and could provide needed support for fuel poor households.

Low ambition for loft and cavity wall insulation

However, the draft Impact Assessment (IA) suggests that the Green Deal and ECO are only expected to address around 2 MtCO₂ of the 5 MtCO₂ cost effective potential for energy efficiency improvement through building fabric measures in the residential sector.

The difference between cost effective potential and expected policy delivery relates largely to projected low levels of investment in loft and cavity wall insulation:

- The IA notes success on loft and cavity wall insulation under CERT, and attributes this to the subsidy under this policy.
- It identifies expected remaining potential from 2013 to top up 6 million lofts, and to insulate 6.3 million cavity walls. There could be additional potential depending on performance of CERT in the second half of 2011 and in 2012 (i.e. if CERT targets are not achieved).
- It suggests that the Green Deal, together with baseline uptake, will only result in insulation of 700,000 lofts (around 10% of potential) and 1.7 million cavity walls (around 30% of potential – and only 15% of the rate achieved under CERT).
- It rules out delivery of lofts and cavity walls under ECO, reflecting the proposed policy design, and an assumption that inclusion of these measures in ECO would incur deadweight costs.

The projected low levels of uptake relative to potential are similar to what we envisage under a market-based approach (i.e. through the Green Deal rather than the ECO), given significant non-financial barriers to uptake, and as set out in our third progress report to Parliament.

Implications of low ambition for carbon budgets and energy affordability

Low uptake would be problematic from a carbon budget perspective for two reasons:

- Both our emissions projections and those of DECC for meeting the first four carbon budgets assume that all lofts and cavity walls are insulated over the next decade (e.g. the Carbon Plan states the aim to maintain installation rates for loft and cavity wall insulation at today's levels over the next decade)
- Insulation of lofts and cavity walls is required to support the roll-out of renewable heat in the residential sector during the 2020s. A less energy efficient housing stock would raise costs and risks of investing in renewable heat. The reason for this is that electric heat pumps (the most promising option for the residential sector) work less efficiently in houses which are not well insulated, and because such houses require more heat.

It would also be problematic from an affordability perspective, where loft and cavity wall insulation offer opportunities to partially offset the impact of projected increases in energy prices over the next decade.

In addition, the current proposal represents an inefficient way of spending ECO funding. A more efficient way would be to use ECO funding to support solid wall insulation, together with loft and cavity wall insulation where required. In this case there would be greater emissions savings and energy bill reductions for a given amount of funding.

Complementing the Green Deal by increasing ECO ambition

A higher level of ECO ambition would complement rather than crowd out Green Deal finance, and would be consistent with such finance being provided by a range of delivery partners:

- We do not accept the argument in the IA that including loft and cavity wall insulation in the ECO would crowd out the Green Deal finance, particularly given that the IA suggests limited uptake under the latter approach.
- More importantly, we believe that inclusion in the ECO would be compatible with 100% Green Deal finance in some cases and blended financing in others (i.e. a

combination of Green Deal finance and ECO funding); it would not imply the need for 100% subsidy of loft and cavity wall insulation.

- It would also be compatible with delivery by a full range of partners under the proposed brokering arrangements, just as solid wall insulation under the ECO could be delivered under these arrangements. In fact, given more ambitious targets, wider participation in delivery may be required in order that these are achieved.

Inclusion in the ECO would therefore underpin the proposed approach and provide confidence that insulation of lofts and cavity walls will actually ensue.

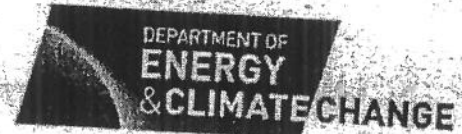
Scope for increased ambition at current funding levels

A high level assessment suggests that there would be scope for delivery of loft, cavity and solid wall insulation required to meet carbon budgets within the current ECO funding envelope (i.e. around £1.3 billion annually) if energy companies and Green Deal providers were sufficiently incentivised to control costs.

This could be achieved through the use of blended financing, together with detailed policy design to minimise costs (e.g. a focus on internal solid wall insulation, exploiting potential for scale economies through area based approaches, measures to reduce or limit the impact of hidden costs including possible regulation and fiscal incentives).

Recommendation on the Green Deal and ECO

Given the importance of achieving high rates of loft and cavity wall insulation over the next decade, but the low levels of likely delivery under the approach proposed in the consultation document, we recommend that DECC / the Government strengthens the new policy by including potential for all loft and cavity wall insulation in the ECO (i.e. ambition should be set at 4-5 MtCO₂ in 2020 than your proposed 2 MtCO₂), and urge the department to carry out a full assessment of this option.



The Rt Hon Chris Huhne MP
Secretary of State
Department of Energy
and Climate Change

Lord Turner
Committee on Climate Change
7 Holbein Place
London
SW1W 8NR

16 January 2012

D. Huhne

Thank you for your letter of 22 December in which you argue for the inclusion of loft and standard cavity wall insulation in the ECO.

I am in full agreement that we must deliver against the level of ambition set out in the Carbon Plan for lofts and cavity walls, as well as for other measures. The Green Deal and the ECO will be integral to this and will help to create a thriving and enduring market.

Whilst I can see that broadening the scope of the ECO may be one route to driving uptake, it is not the only option. I would also question the assumption that the best way of achieving our goal is to continue to fully or partially subsidise measures that can pay for themselves in energy savings. +

Before taking any final decisions I want to be fully sighted on all the potential impacts on the Green Deal market and delivery for a range of different options for supporting the uptake of these measures. I have asked my officials to analyse the economic and other impacts of going down the route you advocated.

I'd like to write again in the Spring to the CCC with the results of this work, and with the benefit of having reviewed the responses to our consultation exercise. As you may be aware, we have asked respondents to comment on the question of whether to include "hard to treat" cavity wall insulation work in the ECO, and how these properties could be identified. I also want to reach a decision based on the new work which suggests that there could be more "easy and medium" cavity walls than we have assumed to date.

CHRIS HUHNE

From: Kennedy, David (CCC)
Sent: 27 March 2012 14:36
To: Virley Simon (Energy Markets & Infrastructure)
Subject: FW: Letter to Edward Davey MP from Lord Turner (Chair, CCC)

Hello Simon

fyi – I gave JB, Ravi and Katie Waring a heads up about this.

Hope it is helpful.

Best wishes

David

From:
Sent: 27 March 2012 13:54
To:
Cc: Kennedy, David (CCC)
Subject: Letter to Edward Davey MP from Lord Turner (Chair, CCC)

Letter from Lord Turner of Ecchinswell, Chairman of the Committee on Climate Change

Please find attached a letter about the Emissions Performance Standard for gas fired power generation.

<<EdwardDaveyMP_Letter270312.pdf>>

A hard copy will follow in the post.

Kind Regards,

PS to David Kennedy (CEO) and Adrian Gault (Chief Economist)

Committee on Climate Change

7 Holbein Place,

London SW1W 8NR

Tel:

Edward Davey MP
Secretary of State
Department for Energy and Climate Change
3 Whitehall Place
London
SW1A 2AW

27th March 2012

Dear Ed

This letter responds to the recent DECC announcement about the Emissions Performance Standard (EPS) for gas-fired power generation. The EPS would allow unabated gas-fired generation from new plant through to 2045.

The approach set out in the announcement could be compatible with power sector decarbonisation required to meet carbon budgets, but also carries the risk that there will be too much gas-fired generation instead of low carbon investment.

- Our scenarios for reducing power sector emissions from current levels of 500 gCO₂/kWh to 50 gCO₂/kWh in 2030 include investment in around 10 GW of unabated gas-fired power capacity over the next two decades, resulting in total gas-fired capacity of around 30 GW in 2030. This would play an important role generating at low annual load factors (e.g. less than 10% on average in 2030) to balance intermittent renewable generation.
- The Electricity Market Reform (EMR) should bring forward low-carbon investments through a combination of Contracts for Differences and the carbon price underpin, in which case gas-fired generation in 2030 would be limited to this balancing role.
- However, there is a risk that a greater role for gas-fired generation would be allowed under the announced EPS, and would ensue if there were limited investment in low-carbon generation. For example, if the 30 GW of gas-fired capacity were to generate as baseload plant in 2030, this would raise average emissions to 200 gCO₂/kWh (i.e. beyond the limits implied by carbon budgets).

In order to mitigate this risk, it is important that a clear decarbonisation objective is set for the EMR, and that a process is put in place to ensure that this objective is achieved. This would help to resolve some of the uncertainties that currently undermine the investment climate for low-carbon power generation.

We continue to focus on power sector decarbonisation and will publish new analysis reinforcing the case for early decarbonisation in our forthcoming progress report to Parliament (June 2012).

Yours sincerely

Lord Adair Turner
Chairman, Committee on Climate Change