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Dear Stephen,

Thank you for your letter dated 9 September to Amber Rudd on behalf of a number of your constituents, about subsidies for renewable energy. I am replying as this matter falls within my portfolio.

It is a priority for this government to keep energy bills as low as possible for hardworking families and businesses while reducing our emissions in the most cost-effective way. Our support has driven down the cost of renewable energy significantly. As costs continue to fall it becomes easier for parts of the renewables industry to survive without subsidies. We have seen wholesale energy costs drop dramatically, which means some of our subsidies have risen as we pay more for the bigger gap between wholesale prices and agreed subsidy rates.

We have also seen great improvements in renewable technology, but this means that technology is cheaper and can generate more electricity; the more electricity generated, the more subsidies we pay.

When we closed the Renewables Obligation (RO) to large-scale solar, we said we would continue to monitor the solar deployment pipeline. We said if this monitoring indicated deployment is growing more rapidly than can be afforded we would consider taking measures to protect the Levy Control Framework (LCF).

There is also evidence that deployment costs for solar PV have dropped significantly since the last banding review, resulting in a risk of potential overcompensation under the RO.

The LCF was designed to control support for low carbon generation in line with our international and domestic climate change goals. The higher than expected deployment rates under low carbon generation schemes mean that we may reach higher levels of low carbon generation than anticipated.

When Contracts for Difference (CfD) budgets were set for the first CfD allocation round, the Government forecasted that 28% of electricity would be met by renewable electricity in 2020. Our updated forecasts would imply that around 34% of electricity consumed in 2020 would come from renewable sources.

The latest forecasts under the LCF to 2020/21 (confirmed by the Office for Budget Responsibility) show that the forecast spend on renewable energy subsidy schemes is set to be higher than previously expected. This is due to changes in wholesale prices, accelerated developments in technological efficiency and higher than expected uptake of demand led schemes.

The forecast of future spend under the LCF is now estimated at around £11.4bn (in nominal prices) or £9.1bn (in 2011/12 prices) in 2020/21. The Government has set a limit of £7.6bn in 2020-2021 (in 2012 prices), so the current forecast is £1.5bn above that limit (around 20%). These costs are paid through additions to electricity bills.

We are determined to get a grip of these costs. It is not acceptable for demand-led schemes to impose unlimited costs on consumers. Getting costs under control now is essential to provide the foundations for clean electricity investment in the future.

However, moving to a low carbon economy remains a priority for us. We appreciate that industry needs clarity on Government policies and future allocation rounds in order to manage investment decisions going forward and we aim to support this. The Government will therefore set out totals for the LCF beyond 2020, providing a basis for electricity investment into the next decade.

Government plans in respect of the next CfD allocation round will be set out in the autumn.

Any decisions about changes to the RHI are awaiting agreement of the RHI budget from 2016 onwards as part of the spending review later this year. At this point, therefore, we cannot make commitments to any extensions to, or changes of, RHI support.

I do hope this reply is helpful.

Best wishes

Andrea

ANDREA LEADSOM