HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Energy pricing and the future of the energy market, HC 1130

Tuesday 22 March 2022

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Watch the meeting

Members present: Darren Jones (Chair); Tonia Antoniazzi; Alan Brown; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Mark Jenkinson; Andy McDonald; Charlotte Nichols; Alexander Stafford

Questions 143 - 165

Witnesses

I: Gillian Cooper, Head of Energy Policy, Citizens Advice; Martin Lewis CBE; Chair, Money Saving Expert.

Written evidence from witnesses:

– Gillian Cooper, Head of Energy Policy, Citizens Advice [EPM0014]

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Examination of Witnesses

Witnesses: Gillian Cooper and Martin Lewis CBE.

Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee for our latest hearing on energy pricing and the future of the energy market. We have three panels today, with a mix of virtual and physical witnesses. In the first panel, we have Martin Lewis from Money Saving Expert, and Gillian Cooper from Citizens Advice, both on the screen. Good morning to both of you. To kick off the questions to you, we are going to go first to Charlotte Nichols.

Q143 **Charlotte Nichols:** Mr Lewis, you are reported to have said this week that Britain is facing an absolute, not relative poverty crisis, saying, "I'm the Money Saving Expert. I'm out of tools to help people. Money management will not solve this. We need political intervention". It has been reported that the Chancellor will not be announcing further measures to support households with energy costs in the spring statement expected this week. With the price cap expected to rise in October, are the Government's current measures adequate to support consumers to pay their energy bills?

Martin Lewis: Very simply, no, they are not. As a tiny change to that quote, I said "virtually out of tools", rather than "out of tools", and there are things that people can do. It was a carefully phrased statement, and there is still action that people can take that will reduce and help to some extent, but very little is going to mitigate what is happening.

It is probably worth me doing a scene setter at this point. About a year ago, for somebody on typical use—of course, if you use more, your bills are higher and, if you use less, your bills are lower—you would have been paying £800 on the cheapest fix. Right now, there is nothing cheaper than the price cap currently, which, for somebody on typical use, is £1,277.

On 1 April, people are going to feel a fiscal punch in the face when that goes up, for someone on typical use, to £1,971, which is a £700 rise. On 1 October, the price cap is then based on an assessment period of wholesale energy prices between 1 February and the end of July. We are seven weeks through that 26-week period. Those seven weeks have included the highest ever wholesale rates in history—a completely unprecedented level—because of the structural rates that have been going on in the market due to Covid and, of course, due to the dreadful situation in Ukraine.

Thankfully, the October prediction from Cornwall analysts has come off a little bit, but the prediction for October is still another rise to £2,500. What that will mean is that many people will see a more than twofold and getting to threefold increase in energy bills, and an absolute average increase, just over a year, of £1,300.

The measures that the Chancellor has put in place are £150 on council tax for those in Band A to Band D, which will hit in April, when we are seeing a £700 year-on-year rise, and the £200 loan/not loan system, which comes in in October. Polling that we have done via YouGov suggests that around 57% of people would choose to opt out of that if they could, because they do not like the gamble on energy prices, and only around 26% would opt into it.

Even if you take both of those measures and pretend that both were cash, that is £350 to cover a typical increase of £1,300 a year. That is clearly not enough. Some people can shoulder the burden, and we do have to shoulder some of the burden. This is a market and, for years, we have had a market-based system. That is not a choice that I will get into. I will leave that one to politicians. Within our market-based system, there are many people who will not be able to afford a £1,300 a year rise, especially with only £350 worth of help.

It is worth remembering that energy bills tend to be regressive. The difference between what the richest and the poorest pay is not that big; it is pretty flat. It is almost a poll tax. For those people on lower to middle incomes, you do not need to be the Money Saving Expert to work out that 350 quid's worth of help, of which £200 is questionable, to cover a £1,300 rise is not enough.

Q144 **Charlotte Nichols:** In terms of what the Government could be doing to support households, and particularly those who are vulnerable, do you have any suggestions?

Martin Lewis: They need to give them more money. It really is as simple as that. We have got into this debate of where the money comes from, and there is a suggestion of cutting VAT. To be honest, that is not enough. Cutting VAT will help me. I am a wealthy man and I do not need the help. I want it put at the lower end of the schedule.

There are lots of places you can choose to get the money. You can get it from general taxation, from borrowing or from windfall taxes. I will leave that to macroeconomists. As a consumer finance expert, I will say that we need to pump more money into the system, or we need a vulnerable customer price cap, which will have to be funded somehow, that means vulnerable customers do not see these rises.

The rocket science is not how we fix it. You fix it by making people's bills cheaper. It is having the political will to get that done, and others will have to work out how it is paid for. I am afraid that that is not my expertise.

Q145 **Charlotte Nichols:** Gillian, if I could put the same questions to you, do you think that the Government's measures are adequate to support consumers to pay their energy bills? If not, what more could they be doing?

Gillian Cooper: We welcome the Government's support package but, as Martin has said, it is insufficient for the scale of the crisis that we are facing. We absolutely have to recognise that there are millions of households that are simply unable to cope with the energy bill increases that we are going to see this year.

At Citizens Advice, we are already breaking a number of very unwelcome records. The demand for advice is at its highest ever level and we are providing record numbers of people with food vouchers, fuel vouchers and other charitable support. All of that is before the £700 increase takes effect in April. Data over these last weeks shows that around 5 million people, even with the Chancellor's support package, will be unable to afford their energy bills from April, and that rises to around £14.5 million people from October if we see a further rise in the price cap, as is expected.

Without further support, we are heading towards a crisis where a significant proportion of the population cannot afford to keep safe and warm in their homes. That is going to drive up the costs of delivering other public services. When you live in a cold home, you are more likely to suffer ill health, and that will increase the demand on NHS services. Children living in cold homes cannot thrive and are going to struggle to concentrate in school. We do need the Government to bring forward more financial support to help people with this crisis.

The first step that the Government could take would be to uprate benefits to reflect the actual inflation rate, not the inflation rate that we had last September. The world has changed dramatically since then. Going ahead with the 3.1% increase would impose a real-terms cut on people's incomes when they are already struggling to cope. As Martin said, we need more targeted financial support for households on the lowest incomes. These are the households that cannot cope because they are already struggling to afford their essential bills.

There are ways of doing it, and probably the most effective is through the benefits system in the form of a grant to people, or you could use proxies like the warm home discount. You would need to increase the value of it significantly and expand the number of people who are eligible to receive it, and we think that the Government should cover the cost of this expansion. There are other options, like expanding the value of the energy rebate and either delaying the period when people need to start paying it back or, better yet, turning it into a grant. You do need to provide more to support to people.

In the medium and longer term, we need to get serious about reducing our reliance on gas in this country. We probably need a Government-led campaign to help people safely—and I use the word deliberately—reduce energy use in their home. We need to be giving people consistent advice in this area. We also need the Government to be supercharging the existing schemes that help people future proof their homes. That is everything from the boiler upgrade schemes to the local authority-led schemes. We need to be reaching more people, more quickly.

We need to be thinking about even more radical options. Last week, we called for a Marshall plan for energy efficiency to help us future proof our homes. We need to help people make these changes to their homes, by switching to low-carbon heating, making their properties warmer and more comfortable, in order to help us reduce our dependency on fossil fuels. We probably need to get quite radical about how we do this. Do we do it on a street-by-street, community-by-community basis, to ensure proper support for people living in areas that are the hardest to decarbonise?

Q146 **Ms Ghani:** Good morning. There have been some reports that customers are being aggressively chased for payment by energy suppliers. Can you share some of the concerns that you have? Maybe you want to talk about some of the suppliers that are being very heavy-handed. What more can we do about this? Other than exposing them, what more can the Government do to try to give some comfort and support to customers?

Martin Lewis: There are many issues going on in the market, not just being chased for payment. There are issues of people being owed credit and not getting it. There are worrying issues of companies increasing people's direct debits disproportionately to the rate that is being increased, even for those in credit. There is no reason to double someone's direct debit when they are in credit and the price cap is going up 54%. That is not mathematically sound and is a breach of licence conditions. I have been very concerned that a number of companies are doing it to improve their cashflow situation at the expense of their customers, and we would like to see the regulator crack down on that quite substantially.

It is important to remember that there is no competition in the market any more. This is not a market. No one can switch. One of the concerns is that many companies are putting out incredibly expensive fixed tariffs, then writing to their customers as if they have no choice but to move on to the fixed tariff and off the price cap. While there are some fixed tariffs that are worth getting, there are no open market ones that are worth getting right now, so we have a marketing issue where, effectively, companies are trying to push people off the variable price and on to a much more expensive fixed rate.

We have an issue in the prepayment meter market. We have had it confirmed by Ofgem that, for people who top up their prepayment meters—non-smart meters, I should point out—that rate should remain until they top up again, which is the advice and guidance we have been giving. Top up now as much as you can and, when you get into April, until you top up again, the rate should remain at the pre-April price, confirmed by Ofgem and originally confirmed by all companies except Scottish Power, which said it would add a debt on top. E.on has now backtracked and is saying, "The information we originally gave you is not correct. We will look to recoup that from 1 April".

Q147 **Ms Ghani:** Martin, before you continue—and it is brilliant that you are giving us so much content—you mentioned something that I want a bit more detail on. Can you please give us some examples of companies that are doubling direct debits? Can you share that with the Committee this morning?

Martin Lewis: Basically, anyone with an energy licence. This is a market-wide system that I am getting completely swamped by people complaining about. In fact, I have a video going out on it later today, explaining to people why their energy direct debits are going up so much. The answer is that companies are seeing this price change as an opportunity to crystallise a change in payment, and it is right across the board with all companies. There is no point giving you specific examples, because it is right across the board. Therefore, consumers have to be wary.

There is so much going on in the energy market. Ofgem is under-resourced to deal with the number of companies that have gone bust and what is going on in the energy market. The amount of playing fast and loose that seems to be going on is huge right now. They are seeing it as an opportunity to crystallise increases. We need to crack down on that and to be much tougher with energy firms that do this.

People do not have the tools to call up. If it happens to me, and I know that my rate has gone up 54% if I am in credit and they put it up by 100%, I have an ability to deal with that. I understand the direct debit pattern. I can go in and ask them to justify it. I can see whether it is justified. It is not always right. If you are in debt or have not given a meter reading, there can be problems.

The sheer volume of complaints that I am getting on that basis indicates to me that this is systemic and market-wide, rather than individual supplier-led. We could go and gather data for you—if you would like us to, we can—to try to target which are the worst suppliers at it, but I do not have that to hand today.

Ms Ghani: If you could give it to the Committee when you do have it to hand, that would be very useful.

Gillian Cooper: We are also seeing some concerning cases in terms of aggressive chasing of customers. Whether that is part of a wider trend, that is something that we are still monitoring. We are quite concerned that rising debt levels among customers is going to result in more financial strain for suppliers, which could set up a really unfortunate circle, where there is more aggressive debt collection in the coming months and poor customer service.

We also know that debt charities, us included, are under pressure with rising demand from energy customers being signposted to their services.

Another trend is around the customers of failed suppliers who do not benefit from energy debt protections. Administrators can ask for large sums of money at short notice, and there is very little that we can do to help people in that situation.

It is important to draw out two particular issues. The cost of living crisis means that people are struggling to pay other essential bills, such as housing, council tax or food. As a debt advice charity, we are seeing how that is playing out and how people are struggling to cope.

With energy in particular, we expect that, this year, given the way bills are going, more people will be unable to afford to pay for their ongoing consumption, and more will be unable to set up a debt repayment arrangement, simply because they do not have any money that could go towards paying back their debt, so the situation is likely to decline over this year, which will place more financial strain on suppliers.

Secondly, where there is bad practice in the market, we need much more proactive monitoring and enforcement of the rules. Our *Market Meltdown* report, which we published in December, outlined a number of examples of where Ofgem had not taken action quickly enough to tackle poor performance and risky behaviour by suppliers. That meant that we went into this crisis with a weaker market than we should have had, and the cost of cleaning up the mess is going to be much more expensive than it otherwise would have been. As Martin says, we need Ofgem to be much more proactive at identifying and tackling poor performance, and cracking down right away.

Q148 **Richard Fuller:** Mr Lewis made an interesting observation that customers' directs debits, if I have this right, were increasing to an extent that could not be justified by even an anticipated increase in the price cap, with the implication that that was being done to support the cashflows of businesses that are under strain. Has Ofgem contacted you? Are you aware of any Ofgem action to halt that kind of behaviour?

Martin Lewis: I have spoken to Ofgem on a number of occasions, and it is trying, but just dealing with the number of failed suppliers is a massive resource strain for it.

Q149 **Richard Fuller:** Is it your impression that, essentially, Ofgem is going soft on this issue because it is worried about how the PR will look if there are more failing businesses?

Martin Lewis: No, that is probably unfair. I think that Ofgem is just completely underresourced to deal with the problem in the marketplace at the moment. I am hearing anecdotally from what people report to me—customer service agents rather than anyone senior—that some people are being told that, because of the expected October price rise, even though that is not announced and is not happening yet, businesses are trying to help people cover off October by putting it up disproportionately, based on the April price rise, if that makes sense.

There is one thing that would be helpful here. You have me talking about predictions of October. This is an algorithm. I know that some in Government do not like algorithms any more, but this is an algorithm to decide what the price cap will be set at. We are seven weeks through the 26-week period. It would be good if Ofgem, rather than having to get analysts to do it, were to publish regular forward guidance, so that people could see what the likely price cap will be in October. People like me know what is going on. That would be a far better way to do it, and the direct debit might be justifiable. If we think that that is really likely to happen and is locked in, it would be justifiable, but at the moment people have no way.

There are two things going on here. There is the absolute rise in prices. I am also chair of the Money and Mental Health charity. The impact of the cost of living crisis on people's mental health is paramount here. When we hear the Chancellor's spring statement tomorrow, even if he is not going to come out with firm plans, some soft guidance that, if things continue to be as catastrophic as they are right now, there will be more help would be beneficial for people's state of mind.

There are many people who are absolutely panicking right now, not least those with disabilities, using oxygen concentrators, defibrillators or electric wheelchairs, who have disproportionate energy uses. If you are currently paying five grand a year, and you are going to see it going up to seven and a half grand in April and 10 grand in October, it is not surprising that you are panicking. Those people need special help.

Q150 **Chair:** Mr Lewis, it has been suggested that the price cap might move to a quarterly basis. Would that help in any way other than maybe smoothing the increases over the year? Would you welcome a quarterly price cap?

Martin Lewis: I have given evidence to Ofgem on this, and I will repeat it here. Quarterly is a little too frequent because, hopefully, one day we will go back to a normal market. One of the things that the price cap has done is acted like a node in order to get people to switch. If you become too familiar with price cap changes, you will lose that. I would probably go to three times a year and have it four-monthly, which is a good compromise between what companies what and what consumers want.

The one concern that we have to be very careful of, if we switch to a shorter system, is that the October price cap, if it is going to be six months, is predicated on a prior six months' worth of bills. We do not want to have a period where you double count and get the same rise being incorporated twice into a bill period. I do not object to a shorter price cap period, properly communicated, but I would probably be more willing to go to three times a year rather than four times a year. It would give people a little bit of planning.

What I would not like to see happen is that being interlinked with the inability for people to switch. I know that it was being mooted that, if you move on to a price cap, you are locked into it. I am very strongly opposed to that.

Q151 **Chair:** Gillian Cooper, do you agree with that assessment on the potential for a quarterly price cap?

Gillian Cooper: As Martin said, it will mean more volatility in energy bills. It will mean that any increases or decreases in wholesale prices will feed through to bills more quickly. On the basis that it will reduce the risk of further supplier failures, we support the move to a quarterly price cap, because the existing supplier failures that we have had in the market to date are all being recovered through consumer bills.

Again, like Martin, we do not propose the alternative, which was turning the default tariff into a 12-month fixed-term deal. That would, again, increase rather than decrease the risks and be quite confusing for consumers. You could have a situation where people were on radically different prices to their neighbour, just because of when their deal turned over. The quarterly price cap, or even a four-monthly one, feels like the best alternative.

Q152 **Chair:** There has often been a debate as to whether we should just replace the price cap with a social tariff. What is your view on how those policies might interplay?

Gillian Cooper: The price cap has done a good job of tackling the loyalty penalty, which is people paying over the odds because they do not shop around. The price cap has always been a fair price, not the most affordable one.

If you want to switch to delivering an affordable price to a selected group of people, you probably need a different type of intervention. Whether that is using something like the warm home discount or bringing in a social tariff, those are options. You still have to think about how you are going to continue tackling the loyalty penalty within the energy market, because, if we move back to a world where the market opens up again and we have switching, the loyalty penalty has been a persistent problem in the energy market for the last decades, since it opened to competition.

We just need to make sure that we have the right interventions for the problems that we are trying to solve. Fairness and affordability are quite different, and they probably each deserve interventions of their own.

Martin Lewis: I have a slightly different view to Gillian. For the first time, there is a little bit of water between us. I have generally never been a fan of the price cap. You have to decide whether you want to regulate prices or to have open markets. If you have open markets, you need big differentials to encourage people to switch. In normal times, I have not been a fan of the price cap. However, it is being incredibly protective at the moment.

I would prefer to see, in normal times—and I do stress that—us defining who are legitimate victims of the market. If I or you choose not to switch, hard luck. You should know better. If a struggling 90-year-old grandmother who has dementia chooses not to switch, she needs much greater protection than the price cap currently affords, but I would not do that until this crisis is over because, right now, we are in such an extraordinary position, somewhat by fluke.

What is protecting people on the price cap is not the price cap itself but the time delay of the price cap. The lag behind it is what has been causing the protection. I would keep that going for the moment, but if we ever do return to normality—and here's hoping—I would be more in favour of a social tariff that means much cheaper bills for those who cannot engage in a market solution, unless you choose to regulate all prices.

Q153 **Alan Brown:** Gillian, Citizens Advice estimated that the failure of Avro Energy alone is going to cost customers over £700 million. I understand that, over time, Citizens Advice raised concerns with Ofgem about Avro and other companies operating unsustainable business practices. What concerns were raised? When were they first raised? What response did you get from the regulator?

Gillian Cooper: I have been working in the energy sector for quite a long time and have met a large number of new suppliers that have come into the market over the past decade or so. Within that, I have been genuinely excited about some of the companies that have come into the market with new ideas. With some of them, I have been quite worried from the start.

It is fair to say that, with Avro, we had some concerns from the start. It has been written about elsewhere, but it was started by an incredibly young person with limited experience of previous companies. We had concerns about it as a company and how it dealt with Citizens Advice. When you come into this market, you have to set up a formal relationship with Citizens Advice, because we are the statutory advice provider within this sector, and they were incredibly unresponsive, so a number of alarm bells were ringing with this particular company.

We shared concerns with Ofgem on both a formal and an informal basis. We first wrote to Ofgem about Avro in 2018 and then continued to raise concerns over the next couple of years through our formal arrangements that we have in place with Ofgem and the Energy Ombudsman. Throughout that period, Ofgem told us that action was being taken via its compliance team where it thought it was necessary, but there was no formal enforcement action taken in relation to our core concerns around customer service.

The action that was taken by Ofgem did not result in sustained improvements in Avro's performance, and the company continued to grow quite rapidly throughout this period, more than doubling in size in the period between when we first raised concerns and when it failed. It had about 600,000 customers when it failed and it is going to cost all of us, who will pay for this through our future energy bills, about £679 million. When the administrator report for Avro was published, it outlined that the company had no source of external funding and was not hedging properly in line with what was required around the price cap, so it was running a business that was not fit for purpose. Unfortunately, all of us are going to have to pay the costs of that.

Another point that is really important here is that energy supply is an essential-for-life service. You have to be a properly credible company with a deep understanding of the market that you are getting into. Unfortunately, in this case, this was not a company that was fully prepared to operate in a market providing people with an essential-for-life service.

Q154 **Alan Brown:** Is there something wrong if you could see that there were issues with Avro but Ofgem still did not take enforcement action and the company was still allowed to grow on an unsustainable basis? Where is the failure? You are a statutory energy consumer advocate. As the statutory advocate, you are reporting your concerns to Ofgem and yet action is not being taken, so how is that rectified?

Gillian Cooper: Overall, Ofgem has a decent set of rules in place that should govern the behaviour of supplier, but rules work only if they are properly monitored and enforced. At times, and certainly over the last decade, Ofgem did not get the balance right between what it saw as its job in encouraging competition, and protecting consumers from harm. This is one of the examples where Ofgem probably did not have enough resource put into its compliance and enforcement team. The report that we published showed that that had been cut by about 25% between 2017 and 2021.

Ofgem needs to become a lot better at bringing together all the data and insight that it collects across the multiple data streams that it is managing and to make sure that it is properly targeting the areas that are causing the biggest risk to consumers. It also just needs to be better at stepping in more quickly when it is clear that problems are building up in the system. Enforcement in cases that Ofgem has run over the past couple of years has taken up to four years to complete, and it needs to be getting to that more quickly, so that we are tackling problems as they emerge in the market.

Q155 **Alan Brown:** Martin, you want to come in but could I pose a follow-up question to you before you comment on that? We are talking about existing failures, but Ofgem put forward proposals in December 2021 that were supposed to boost financial resilience in the energy market and to try to resolve some of these past failures. Do the proposals go far enough, particularly with regard to protecting customer balances and holding senior executives to account? You might want to comment on that and what you were going to comment on there.

Martin Lewis: Going back, we cannot forget that there was a huge push out there in the market for a massive liberalisation of energy markets. Frankly, there was a point where one man and his dog could set up an energy company. Even I, who has known about switching, tried to think about how I communicate it on the telly, and I came up with a catchphrase that did not catch on. It is probably not the best in the world: "Scroll down". It is the fact that the very cheapest were always small suppliers with no customer service or track record, so scroll down. You will be paying only 10 or 20 quid a year more, and you will get a big name supplier with customer service.

That liberalisation of the market hurt the number of people switching, because so many people got burnt by it, and led to terrible customer service. After a meeting with Ofgem in 2018, I suggested three tests—fit and proper person, financial solvency, and a customer service test. Within six months, they were put in place for new suppliers, but not for existing ones. That came later. I do not believe that they were strong enough and we are still suffering on the back of that.

What we have had now is a concertina-ing of competition, so we have only the big suppliers. Ultimately, the market gave a far greater test than Ofgem did, and many went bust, including some good suppliers that just did not have the backing to do the extortionate hedging that would have been needed to supply this, if you are a relatively new firm.

As for the 2021 proposals, you will forgive me, but it has been a busy couple of months and I have not read them in detail. My team and I will have a look and submit something to you in writing, if that is okay.

Q156 **Alan Brown:** Gillian, do you have anything to say about the proposals in December 2021 and whether they are robust enough in terms of customer balance protection and holding senior executives to account?

Gillian Cooper: We are supportive of the plans that Ofgem has brought forward to boost financial resilience and impose prudential regulation in this market. It is about time, and the crisis has shown why it is absolutely essential that this is brought forward.

Some of these issues, particularly around capital adequacy and hedging strategies, have been looked at in the past and we just need Ofgem to make a decision. The policy around capital adequacy and ringfencing customer credit balances is an issue where Ofgem just needs to come forward and make a decision.

Going back to the point that I have already made, it is one thing to have the rules and another to adequately enforce them. Ofgem also needs to be moving forward, alongside the prudential regulation that it is putting in place, how it is going to reform its compliance and enforcement approach. If it does not do that alongside this, the rule changes will be less effective.

Another area where we want to see action from Ofgem is to raise service standards within the sector in order to rebuild customer trust, which has taken a huge knock as a result of all the supplier failures. We would like to see Ofgem come forward to enhance protections, particularly as we are moving into a much more complicated world as part of the net zero transition.

Suppliers are probably going to be selling much more complex products and services in the future, and we need to make sure that there is a proper balance of responsibility, because the rules that we have in the market at the moment are basically, "Do not actively cause harm to your customers", but we need to shift that balance to something more like, "You, as a company, have an onus to ensure that your customers have a good experience in this market", similar to what is being put in place in the financial services sector. As we move into a more complex energy sector towards the later half of this decade, it feels right that Ofgem is looking at how it does that.

Q157 **Alan Brown:** The retail energy supplier makes up a relatively small component of energy bills. There are many other components in our bills, including services such as the district network operators. I read in a report that DNOs are making profits of up to 40%. Is that correct? Is that something that Citizens Advice has looked at? Is it something else that the regulator needs to look at? Companies making such big profits are affecting our bills at the end of the day as well.

Gillian Cooper: The network charges on the bills are a cost pass-through, so the costs that are incurred by networks are simply passed through by energy suppliers. Profits made by network companies are something that Citizens Advice has done a lot of work on over the years. We published a report a couple of years ago called *Missing Billions* that focused on the very large profits being made by these companies, and it has resulted in some changes to issues like the cost of capital that network companies pay. I am happy to follow up with a written statement.

Q158 **Alan Brown:** Could you follow up in writing with further changes that may be required about these profits?

Gillian Cooper: It is something that Citizens Advice is actively involved in. This week, my team is participating in the open hearings run by Ofgem, which are about setting the rate of return that network companies will get, but I will follow up.

Q159 **Andy McDonald:** The thought of more complexity entering this market fills me with dread, but can I move on to the supplier of last resort process and ask you some questions around that? I just want your assessment of the impacts upon consumers. We are briefed that the administrators are incentivised only to obtain as much money as possible for investors and that there is no duty to customers or costs to the market. What is your view about that? Are any reforms required to reconcile those duties?

Gillian Cooper: We have had 29 suppliers fail since August and over 2 million households going through the SoLR process. It is fair to say that it was never envisioned that so many would go through the process in such a short period of time.

In terms of the process itself, it has been okay for many, but we know that a significant minority have experienced problems. We have polling that suggests that one in five are quite dissatisfied. The most common issues that we have seen are the impact of sudden price rises on people, because their new suppliers did not honour the old deals, delays in getting final bills and credit refunds, and in new accounts being set up, and confusion about how the final bill has been calculated. This can lead to shock bills and people being out of pocket. There is a lack of debt protections with administrators, as I have already mentioned. If you were on a repayment plan with your old supplier, that can be torn up and a demand for payment in full issued.

In terms of the causes for that, the quality of the records held by the failed supplier is quite key. If it had poor data, people are more likely to have a bad experience when they have been transferred to a new supplier. There is another issue around the quality of the administrator. Some are more experienced than others, and we are aware that some of the incoming suppliers of last resort have experienced significant challenges trying to get access to customer data and systems that they need to set up the new accounts and issue credit refunds.

It is fair to say that we never expected that we would need to use the administration rules so often for companies that are providing essential-for-life services, and there does need to be a piece of work done on whether we have the right balance of protections between the people affected and the role of the administrators. There are some areas where the duties of the administrators do not align very well with the supplier of last resort regime, which is what you have identified, to ensure that costs to consumers are minimised and that the investors and owners of these companies are not shielded from all the losses that they have caused.

We need to move to a world where the costs of failure are not fully borne by energy billpayers. We have estimated that the costs of all these supplier failures are going to be in excess of £2.4 billion, or about £94 per household. It is important to state that that does not include the costs of the failure of Bulb, which is being treated separately under the special administration regime. That alone could add a further £3 billion worth of costs, based on the latest reports, and it is really important that those costs are treated differently by the Government. We would like to see them paid by taxpayers, not by energy bill payers.

Martin Lewis: I agree with everything that Gillian said. We have done our own polling on this, and I should note that it is polling, not a statistical random sample of the UK population, but of 12,000 people. The big result of that is that the company you would really not want to be moved to as supplier of last resort is British Gas, which had a net experience score of minus 56. Shell and EDF did not do that well. It is worth noting that Octopus was the only one that had a positive net experience score.[1]

If you look at the number of companies that went bust, while Gillian spoke about the administrator and the data setup of the prior company, I also think the company that people are being moved to is an impact on that. Again, this was all done in a panic stations manner, because there were so many of them, but British Gas has underperformed. There are two main problems that people have with the entirety, not just with British Gas.

One is an inability to talk to or contact anybody when you are worried about what is happening, and nobody getting back to them. The second is credit being delayed for months and months, when you were owed credit at your old company. We got to the point where I was advising people to go and take a snapshot of how much credit they were in, even with a company that was not going bust, and to do it every week, just in case it did go bust, so that you had a way of proving it because the databases were so inaccurate. The problem with getting people's credit back, which can go on for two, three or four months at this crucial cost of living time, has been horrendous. There are a lot of learnings to come from that, both from Ofgem and from some of the big suppliers.

Q160 **Andy McDonald:** On the whole business of the costs of this process, you have talked about Bulb, which has added to the bill. Gillian, we were told by Ofgem, quite interestingly, that the costs amounted to £1.8 billion or £68 per customer as of 1 April, but that was to cover only 15% of the supplier failure, so it is clearly going to be going up very considerably. Should those costs associated with the supplier of last resort be delayed or spread over a longer period for consumers?

Gillian Cooper: Given the state of energy bill rises at the moment, if there are options to spread those costs over a longer period, that should be looked at, because we need all the support that is possible to help people cope with the rising energy bills that they are going to see this year. It is too soon to say, but, given the impact of the war in Ukraine, I do not think that we can say that we might return to business as usual in 2023. We could be in for a sustained period of much higher energy prices, so, if there is a way to spread that, it should absolutely be looked at.

Q161 **Andy McDonald:** I just want to ask some questions about the future of the retail market, if I may. Do you have concerns about how the collapse of retailers in the energy market could affect competition and, in turn, consumers? Martin, you said that this is a market-based system but there

[1] Mr Lewis would like to subsequently clarify that both Octopus and E.On received a net positive score. The full findings of the survey can be found here.

is no market. Is this teetering on the brink of collapse? What is your view?

Martin Lewis: It probably will not. In the long run, this may be good news for the big suppliers. We are, effectively, moving to an oligopoly right now, where there are a few big suppliers that are dominating the market. There is no competition because there are no cheap fixes. The only fixes ever worth getting are existing customer fixes, and I can name only Octopus and E.on that have, in the last month or so, put out anything that is decent and worth considering at all. People may have switched to other deals, but I would not consider them to be decent.

Why would any new entrant come into the market right now? There may be room for new entrants with lower costs, once things get back to normal, if things get back to normal, but the real problem that we have at the moment is that, as you have just said, this is a market-based system with absolutely zero market and zero competition. There is nothing meaningfully cheaper than the price cap going on out there at the moment. In fact, the cheapest fix on the market is around 50% more than the new April price cap, and more than the predicted price cap in October. You would not want to switch to it, so we are absolutely locked in.

It just depends on your viewpoint. If this is a transitionary, one-year thing, the market comes back and prices drop back down, we might get some competition, but why would these big suppliers offer new deals, when they are now also being told by Ofgem that they have to offer all their existing customers new deals, and when they have a locked-in share of the market and all those years of competition came out there?

The market has gone. I just do not know if it will come back. I hope it will but I do not know if it will. Otherwise, we are going to have to move to a different system.

Q162 **Andy McDonald:** But should it? You chair a mental health charity. This puts people under the stress and strain in terms of whether they are getting the best deal or being ripped off. Is a market the people’s priority? Do they really care about who supplies their gas or electricity? What is important to people, not to the market?

Martin Lewis: As someone who tries not to get into party politics, let us be straight. You could nationalise energy companies, which is one route, or you could go for market competition, which is another route. I will stay agnostic as to which of those two systems is better, but if you are going to go for the second system, which is a market-based route, the way that you get people to move in a market is to have big differentials, which we talked about earlier, and you have a social tariff that protects the vulnerable who cannot engage in the market. We do not have big differentials and we do not have a social tariff, so we have a broken market.

You might decide that nationalisation and not having a market is the right solution. I will opt out of that particular one because it crosses the line of getting into internecine political issues, but I certainly would not object if we moved that way. If we are going to have market competition, we need market competition that works, which we do not have either at the moment.

Gillian Cooper: The big challenge that we have is how we move from the fundamentally broken market that we have at the moment, where the price cap is the cheapest tariff, to one that sets us up for the net zero transition that we need to have. We need a market going forward that is able to offer people products and services that help facilitate that transition, which link to electric vehicles and to low-carbon heating. As Martin says, we need a market that continues delivering the essential service that people need to heat and light their homes.

The challenges ahead are around what consumer protections we need to have in place, and how to ensure we have clear information and advice for people, so that we are enabling the majority of the public to feel confident about taking up new products and services. We need to tackle the barriers that stopped some consumers from getting a good deal in the previous market. It is about ensuring that we have products and services that work for people in private rented homes or for people who are digitally excluded.

The 2020s will be a decade of quite significant change, particularly for the retail market, so we do need those appropriate protections to help support people throughout the transition. Not everyone is going to be able to take these steps, particularly in the early years, so we need to look at what price protection looks like for that segment of consumers who are very likely to lose out because they cannot take up new products and services at this point in time.

Q163 **Andy McDonald:** On that issue of the protections that are needed, we have auto-switchers and third-party intermediaries at play here. There has been a diminution in the activity of those organisations of late. It is unregulated. Is there a need for regulation in that area?

Martin Lewis: What Money Saving Expert has is not an auto-switch system, because we always require one quick approval to switch. Effectively, what we do is an automated comparison, where you give us your details and tell us what your preferences are, and we tell you what your cheapest deal is within your parameters. We work within a comparison model that is automated.

The big problem with auto-switch is that they sell to you that they will switch it, but they operate off limited panels. I would like to see some regulation that is at least transparent that they are not going to switch you to best in market if they are free. They are operating off a limited panel, which is bidding them on a commercial basis.

With the MSE system, we are pretty transparent about what we do, and I made a decision that we would not switch anyone unless they clicked and said, "I accept the switch that you are doing". I would like to see the market tidied up, but it is all trivial for now.

There are two points that I would really like to make on another subject. I know that our time is running out, and I wonder if someone would forgive me and I would be allowed to do it.

Chair: I am very sorry, Martin, but we are 10 minutes over time already for this panel. You are very welcome to write to me with them and we can record them on the record. I am so sorry.

Q164 **Ms Ghani:** We have already spoken about Bulb, which went into special administration in November. It had 1.6 million customers. For the record, Gillian, you said that the amount of £1.7 billion, which could be even greater, should be recouped from the taxpayer, not the customer. Martin, do you agree or disagree? If you do a quick nod, we can get through this quickly.

Martin Lewis: It would be more progressive if you recouped it from the taxpayer, because heating bills are regressive. I will do my other two quickly—I am going to be naughty.

Oil and LPG are unregulated, which is a disgrace. They have no protections, no price cap and no regulation. People are seeing their bills treble or quadruple. We need that market to be regulated, even if you do not do a price cap, so that it is fair.

Please could you also look at heating networks, which were meant to encourage environmental efficiency? It is where you move into a block of flats, and the business owner negotiates the tariff. They are on business tariffs, so there are lots of domestic gas and electricity customers who are not able to get on the price cap, because they are on a business tariff.

Those are holes in the system that need fixing quickly. Sorry if I broke the rules, Chair. I will take a slap on the wrist.

Q165 **Ms Ghani:** It is okay, Martin. You have it on the record. Well done, you have nailed it. I have one more question to ask. I just want to go back to Bulb, because it is an important question and I need both of your answers on the record. You may be aware that the Treasury decided not to allow the hedging strategy of Bulb. What do you think about that strategy? What lessons could be learned if other retailers of a similar size were to collapse in the future?

Martin Lewis: Hedging strategy is not my bag, but it does not sound very sensible that we are making the nation pay more costs to protect people's energy by banning a strategy that is commonly used by all energy firms from a special administrator.

Gillian Cooper: I would agree with what Martin has said.

Ms Ghani: We have kept in time then. Thank you so much.

Chair: Thank you, although technically we are 12 minutes over time. Thank you to Martin Lewis from Money Saving Expert and Gillian Cooper from Citizens Advice. That is the end of our first panel.