HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

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

Tuesday 19 April 2022

Ordered by the House of Commons to be published on 19 April 2022.

Watch the meeting

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

Questions 199 to 264

Witnesses

I: Keith Anderson, Chief Executive Officer ScottishPower; Michael Lewis, Chief Executive Officer, E.ON; Simone Rossi, Chief Executive Officer, EDF; and Chris O'Shea, Chief Executive Officer, Centrica.

Written evidence from witnesses:

– Keith Anderson, CEO, ScottishPower [EPM0029]

– Michael Lewis, CEO, E.ON, [EPM0013]

– Simone Rossi, CEO, EDF Energy [EPM0031]

– Chris O'Shea, CEO, Centrica [EPM0024]

Examination of witnesses

Witnesses: Keith Anderson, Michael Lewis, Simone Rossi and Chris O'Shea.

Q199 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee for our latest hearing on energy pricing and the future of the energy market.

We have three panels today. In our first panel, we have Michael Lewis from E.ON, Simone Rossi from EDF, Chris O'Shea from Centrica and Keith Anderson from ScottishPower—good morning to all of you, gentlemen. I am sorry it is so uncomfortably warm in here; whoever supplies our gas must be thrilled, but we have opened the windows and hopefully the air will come through.

To kick us off, I would be keen to get a scene-setter from each of you around the state of play for your customers' ability to pay their energy bills and, in particular, the state of bad debt or anticipated bad debt at your company. I will go from left to right, so please could you start, Mr Lewis?

Michael Lewis: Clearly, the price increase we saw on 1 April was unprecedented. I have never seen anything like it in my 30 years in the industry, so we are expecting a severe impact on our customers' ability to pay. There is no doubt that the Government's intervention—the £200 that will be paid in October and the rebate on council tax—will help, but it isn't nearly enough to mitigate the full impact of this price increase.

What we expect to see is, first, a significantly larger number of people moving into fuel poverty as a consequence of the price increase and potential further increases in October, and a consequential significant increase in bad debt. If nothing further is done by the Government to mitigate this impact, we expect to see the outstanding debt increase by around 50% on our books—that is what our modelling shows us—by the end of this year.

Q200 **Chair:** I will come back to further measures from the Government, but could you give us an idea of scale in relation to your customer base? You said that you think bad debt might increase by 50% by the end of the year. What does that mean?

Michael Lewis: Total debt we expect to increase by around £800 million. At the moment it is around £1.6 billion, so a 50% increase.

Q201 **Chair:** What percentage of your customer base is in bad debt?

Michael Lewis: That is not necessarily bad debt. That is total debt. The number of customers—I would have to calculate that. I can come back to you with a number on that, but that is the aggregate number.

Chair: You had the unfortunate task of going first, and now everyone else knows what I am going to ask.

Simone Rossi: I can say that over the last few months we have recorded a 40% increase in calls from customers concerned about their debt. This is just a first symptom of the concerns. We have seen data showing that the 10% most vulnerable customers in our base will go from spending £1 in every £12 on energy bills to spending £1 in £6, which is a very large proportion.

Likewise, we are concerned about what is in front of us. I have to say that we have not yet seen the biggest problems. Unfortunately, prepayment customers have been hit first, because the new tariffs have applied since 1 April. Therefore, they can measure that the usual charge on the meter lasts less than it used to. That is the first segment to be impacted. For everyone else, the impact will be passed through gradually as direct debits or bills catch up with the new tariffs.

I share the concern that Mike expressed. When the Government intervened at the beginning of February, that may have been proportionate at that point in time. But ever since, the situation has worsened considerably, with the war in Ukraine and further turmoil in the markets. We are now seeing bills being higher for longer. I would expect Government probably to reassess the situation in short order, to see what is possible.

Q202 **Chair:** Do you have any particular numbers? You have so many customers; how many of them are struggling to pay their bills, and how much worse do you think it will get?

Simone Rossi: We do not yet have any evidence of a significant increase is customers struggling to pay their bills, as of today. But to give you an idea, we supply energy to a little over 3 million households. Of those, about 15% are on prepayment. They have been hit by the increase already.

If you are on prepayment, you have no choice but to pay, because otherwise you run out of electricity. For the remaining 85% of customers, the majority are on a direct debit arrangement, which means that it will take a few weeks for the monthly payment to go up. That is the point when we expect to see issues. I do not have any precise modelling numbers to give you, but we are certainly concerned as a business that a number of them will struggle to pay. It may not necessarily all be debt but there will certainly be an increase in debt.

Chris O'Shea: Just about 10% of our customers are currently late in payment. That is 716,000 customers on average, who are about £440 in debt. That is an increase of 125,000 versus this time last year, and is about £50 million of extra debt. In total, there is about £315 million in debt outstanding.

As Mr Rossi says, it is right that prepayment are seeing the increase already; however, your energy consumption, by and large, halves during the summer, so the price has gone up by about 50% and consumption has gone down by about 50%. We have 1.2 million customers on prepayment meters, so in effect they would be paying slightly more but not much more. When you get to 1 October, their consumption will double, and if the price goes up, that is when we will see the real impact of this. We have got another 2 million customers who pay on receipt of bills. Again, their consumption falls in the summer, whether heat, because it is warmer, or light, because the days are longer.

When we get to winter, we will see the real effect on prepayment customers in October, and the real effect on credit customers, who pay on receipt of bill, probably in December or January. There is still some time to do something with this. We are seeing an uptick now, but it will get worse—a lot worse—without any further intervention, come October.

Keith Anderson: I am hugely—massively—concerned for people, for anyone out there. There are so many people who are really going to struggle with this issue. We are seeing the start of that with our customers. We had set up a new line for people to contact us and had 8,000 calls last week alone, with people coming through on the number with concerns about ability to pay. That is just us in the first month, the first few weeks.

We have not seen it come through debt numbers yet, so I can't give you an increase in debt—it is too early for that. But there is a massive concern and a huge amount of anxiety from people on the phones about what they are going to do, the concern they face and the real worry. A lot of people are facing this issue for the first time. They have never been in this position before. All we are doing with people just now is encouraging them to talk to us, because that is the way we can help them. That is what we need people to do—to keep contacting us.

Like Mr O'Shea, my biggest concern is for when we get to October, particularly around the most vulnerable and poorest. That tends to match with people on a prepayment meter. As Mr O'Shea said, during the summer their consumption will go down, so their bills will be more manageable. Come October, that is going to get truly horrific. It has got to a stage now where I honestly believe that the size and scale of this is beyond what I can deal with. It is beyond what I think this industry can deal with. It needs a massive, significant shift in Government policy and approach towards this.

Q203 **Chair:** That is the big question, isn't it? Because someone is going to have to stomach the cost of all of this. That will be consumers, your companies and their shareholders, or the taxpayer. We have had some announcements from the Chancellor.

You mentioned the £200 loan that is repaid by customers. We've got the council tax rebates. We've had confirmation of the extension of the warm home discount. What more needs to be done, specifically for prepayment customers? We know that the delivery of some of these measures is difficult for them. Is there anything in particular that you think the Government should do for them?

Keith Anderson: My view is that this has got to a size and scale where the Government should introduce a deficit fund. I'll briefly explain what I mean by that. It has got to the point where, in October, for anybody deemed to be in fuel poverty or vulnerable—that will include prepayment meter customers—£1,000 should be taken off their bill and put into a fund. That fund can be repaid over a 10-year period. You can spread that across the whole consumer base, or Government can partially fund it.

I think the problem has got to the size and scale that it requires something significant of that nature, where people deemed to be in fuel poverty or vulnerable need something of the size and scale that puts their bill back to where it used to be before the gas crisis. You can then spread that over a 10-year period, across the rest of the customer base. To me, that is stage 1 of then moving to a social tariff, which is what I think this country needs to have, and we should implement when we get a bit more stability and a bit less volatility in the market.

The cap should be changed to be a social tariff, targeted to discount the price to people in poverty. Right now, people on a prepayment meter pay more, and that is perverse. A social tariff should be brought in to discount the price for people in fuel poverty and those on prepayment. The cost of that should be borne by those who can afford to pay.

Q204 **Chair:** Does anybody disagree with Mr Anderson's suggestion?

Michael Lewis: From our perspective, I fully agree with what Mr Anderson said. We would ultimately fully support a social tariff, but in the short term the Government need to do more. Removing environmental levies and putting them into general taxation is one thing that they can do right now, as is reducing VAT to zero and extending the warm home discount further.

Those are tangible things that can be done before the increase in October, as well as an extension of the existing £200 rebate. I think that would very significantly help all customers. Bear in mind, we are looking at up to 30% to 40% of people going into fuel poverty when the price goes up again in October. Again, I repeat that this is unprecedented, so it requires unprecedented action from Government at this time.

Q205 **Mark Jenkinson:** Mr Anderson, going back to the social tariff, can I clarify if that means getting rid of the cap and creating a social tariff instead of the current price cap that affects everybody?

Keith Anderson: To me, that is stage 2. I think the first thing that you need to do is to set up the deficit fund and take the £1,000 off those people's bills. I do not think there is any other way of dealing with the size and scale of that issue. Once there is a market that is more stable—the gas prices are more stable and less volatile—I think we should move to having a social tariff. I would convert the price cap into a social tariff. Whether it is on the definition of fuel poverty or the definition of the warm home discount, or whether it is a new definition, I don't mind, but I would target it. It would be a discounted price—not a capped price—for people who struggle to pay. I think that is the correct thing for this country to do and the best thing for the Government to do.

Q206 **Alan Brown:** Just backing up, on some of that the Government have produced their energy security strategy, which on the cover says, "Secure, clean and affordable British energy for the long term." It is quite a flimsy document—there is not much of a strategy in it. Perhaps there are some laudable targets. This is a question for Mr Anderson: is there enough in this strategy to provide consumers with cheaper energy and to help with transition away from a reliance on fossil fuels?

Keith Anderson: Thank you, Mr Brown. I support what is in the energy strategy document. I think that, as a medium to long-term document, it heads the country in the correct direction in terms of energy security and support for getting to net zero. Ultimately, both of those things—

Q207 **Alan Brown:** Is there enough in there in terms of support?

Keith Anderson: Both of those things end up leading to lower energy prices, because if you convert to electricity and renewables, it drives the price down. What the document does not tackle is the short-term issue and the short-term need.

I know that the Chancellor has indicated that he is looking at what he will do between now and October. My urge and push for the Chancellor is to bring in something much more radical and fundamental. That is why I think the deficit fund should come in and why we should then move to a social tariff.

Q208 **Alan Brown:** I will come back to those types of costs because that is important. If you look at the targets in the document, everybody welcomes an increased target of offshore wind deployment of 50 GW by 2030. Equally, how realistic is that given that there is going to be 20 GW deployed by 2025? We need to then get another 30 GW by 2030.

Again, is there enough to get there and what are the barriers? We have spoken about transmission charges being a barrier. Now the National Grid is looking at nodal pricing. Is that a risk, and what else needs to be done to ensure that we hit that offshore wind target?

Keith Anderson: I think there are a couple of fundamental things. The encouraging thing about the strategy document—I think it is the first time I have seen it in a document for a long time—is that it talks about the need to invest in the grid. That is absolutely critical to everything this country wants to do in terms of net zero and energy security.

Whether it is renewables, onshore or offshore wind, solar, transport or heating, we need a massive wave of investment in the grid system to allow us to deliver. That requires a fundamental change in the way that we look at regulation and investment in the grid to allow us to do anticipatory investment—to allow us to invest ahead of the time of need to ensure that the country is prepared for it.

It also requires a massive structural change in the way that we put stuff through the planning and environmental systems; we need to get faster. The biggest difference, for my organisation and our group, between investing in the United Kingdom and investing in Spain, America, Germany, France, Poland or Ireland is speed—speed, speed, speed. It is not to do with the rate of return or profitability; it's speed. They all go faster than us and that is what we need to do—go faster.

Ambitious targets are fantastic—I love them, and I sign up to them all the time. But what you need to do is change the underlying processes—the planning process, the grid process, the investment process—to allow you to hit that ambition.

Q209 **Alan Brown:** Scotland's having the highest transmission charges in Europe is not a barrier to the deployment of renewables?

Keith Anderson: It is something that should be looked at as well as transmission charges. But right now, today, I don't think anyone is not building a wind farm in Scotland because of transmission charges. I suspect they are not building a wind farm in Scotland today because it is taking too long to get it through the planning system, or they are waiting for the next CfD auction, or they can't get access to the grid. Charging should be looked at and we should look at restructuring the charging system, but right now I do not think it is the most fundamental issue.

Q210 **Alan Brown:** Mr Lewis, do you have anything to say about the strategy? You already spoke about levy costs. Clearly, if we massively ramp up towards these targets, at the moment, that is a lot of policy costs that are going to be further added to energy bills.

Michael Lewis: It depends precisely how the new investment is funded. In the case of wind farms, of course, they are in the CfD mechanism, which means that over time, depending on what the strike price is, that should not put bills up too much.

Our concern with the energy security strategy is that it was actually an energy supply strategy, and we also need an energy demand strategy—in other words, energy efficiency. For us, that was the big gap. These are things that we can do quickly. These are things that we can ramp up for vulnerable customers very quickly. We were very disappointed that the Government did not address that directly, because that is the silver bullet for solving some of our short-term energy problems—a massive investment in energy efficiency.

We have far too many poorly insulated homes in the UK—the worst in Europe—and we do not have a coherent approach to upgrading them. The ECO system—the energy company obligation—is a tried and tested method. We would like to see that doubled, but funded through taxpayer funds, not through bills, because that would add more to energy bills. Over time, that is the proven way to reduce bills significantly for customers.

We would like to see a really coherent approach to energy efficiency in the social housing sector and the vulnerable sectors through programmes such as ECO and the green homes grant local authority scheme, which was very successful. At the same time, we would like to see the able-to-pay market activated. We have a way of paying for this—it is called the mortgage market. It is a £275 billion market every year. We only need to get 3% to 5% of that directed towards investment in energy efficiency and other net zero upgrades like heat pumps and we can tackle this problem by 2050.

What we would like to see is that every time somebody moves house, they are given an energy efficiency passport that states all the things they have to do, and they are given incentives to do that work by a certain time through things such as a reduction in stamp duty or council tax, which means we start to upgrade all of our homes to the highest levels of energy efficiency. That was what was missing from the energy security strategy.

Q211 **Alan Brown:** Mr Rossi, new nuclear was one of the big headlines that the Prime Minister trailed in advance of the strategy. When the Nuclear Energy (Financing) Bill went through Parliament, the Government's own impact assessment, in table 3, had the estimated range of capital costs plus financing costs of a new nuclear station, depending on the hurdle rate, varying from £38 billion to £63 billion. Do you agree with those figures for the capital and financing costs of a nuclear station?

Simone Rossi: Yes. I would say that these analyses have been done by the Government, but I assume they would be using assumptions. The financing cost of a nuclear station is the largest contribution to the ultimate cost. This is infrastructure that takes about 10 years to build and then 60 years to run, so the cost of capital to do the build is the key variable.

Q212 **Alan Brown:** So a new nuclear station could add a £63 billion commitment to taxpayer—

Simone Rossi: No. To give you an idea, I will give you very simple data. We know that we have one new nuclear power station in construction in Britain. That is Hinkley Point C, which is being built by EDF; we are about halfway through construction. Had this power station started five years earlier and been online today, with its strike price, it would have paid back into the consumers' bills £1 billion, only for this year. These are investments that protect the public from exposure to the volatility of gas prices. This year, had that power station been online, there would have been a £1 billion reduction in consumers' bills. This is the reality.

The nuclear financing Bill will only make the savings bigger, because the CfD that was linked into Hinkley Point was deemed by the National Audit Office to be fairly inefficient when it comes to cost of money. If we can find a smarter way to finance new nuclear, such as that proposed by the nuclear financing Bill, the savings for the bills will be higher than what you would have today with the CfD.

Q213 **Alan Brown:** But the capital and financing costs could still be between

£38 billion and £63 billion. That is the reality—the actual capital and financing costs.

Simone Rossi: If you are saying, "Is an investment required to build infrastructure?" the answer is yes. That is true for offshore wind, that is true for nuclear—anything you want to build requires investment and financing costs. The question is what the impact is on the bills.

Q214 **Alan Brown:** That's fine; thank you. I will move on, because I know we need to do so. The Government has ruled out an oil and gas windfall tax. Mr O'Shea, I don't know whether you want to comment on that. And while we are talking about profits, Centrica increased their profits to £948 million—more than doubled them—in 2021. Is that appropriate when we are talking about this energy crisis in the mix?

Chris O'Shea: I think the numbers you used there are our pre-tax profits. We have an oil and gas business in Norway and in the UK, and the profits there went up by just over £500 million. And within our biggest business, Spirit Energy, 90% of that increase in profit went in tax to the Norwegian Government and to the UK Government. So there is a tax windfall from higher energy prices. The question is what the Government does with that tax windfall. When you talk about a windfall tax, if you leave aside—the impact of a 10% windfall tax on Centrica for last year would have been £5 million, so it is not a material sum for the UK, because the majority of profits are in Norway and are taxed at 78% by the Norwegian Government.

If we take Mr Rossi's answer in terms of the level of investment that is required no matter what the type of energy generation, I would suggest that as a country we have to think about how we attract that investment. It is clearly within the gift of policy makers to change the tax rates. I have seen in the past that changes in tax rates that might appear arbitrary can deter investment in the UK. The impact of a windfall tax on Centrica for 2021 would not be large, so we do not really have a huge vested interest here, but I do think we have to think about how we make sure that the UK is the most attractive country for investment.

Q215 **Alan Brown:** How come you are making more money in Norway and, you say, you are paying more tax there? Why is that not a barrier to investment in Norway, but somehow, changing the tax slightly in the UK is going to wreak havoc?

Chris O'Shea: No, sorry, my point is that in Norway the tax rate is 78%; it has been 78% for over 20 years. In the UK, the tax rate used to be as high as 93% for North sea oil and gas. Successive Administrations have reduced that, and today it is 40%. One of the reasons for that was to try to stimulate investment.

My point is not whether 40% is right in the UK; that is entirely up to policy makers. My point is that if we want to change the tax framework, we should do it with proper consultation and we should do it for the long term and with an aim of attracting the right levels of investment. If the number is not 40%, that's okay. Companies look for stability when they look where to invest their money, so I am not arguing about the rate; I am arguing simply about how we make that change. A one-off windfall tax in the past has been shown to deter investment, so I would suggest we should have a root-and-branch review of that and then decide what best gives us the outcome that we are looking for.

Q216 **Alan Brown:** I have one final question, and it is to Mr Anderson. IBISWorld reported, and then it was picked up in the *Financial Times,* that the distribution network operators have the highest profits of any sector. Can you tell me, in terms of ScottishPower as a DNO: what is your profit margin before tax?

Keith Anderson: I can send profit margins to people. What I would say, though, is that a distribution company and a network company isn't rewarded and measured on profit margin; it's an investment company and a regulated rate of return. For every pound I invest in the distribution system, I earn a strictly managed, regulated rate of return over 40 years. It takes 40 years to get the return. Looking at the profit of a distribution company this year, what you are looking at is the result of investment that has been made over the last 30 to 40 years, not something that has happened this year.

It is very difficult to look at the rate of return, or the margin and the profit of a distribution company and compare it to a retail company. They are completely different commercial operations. They are measured, monitored and rewarded in a completely different way. It is a fixed rate of return. Trying to measure it on profit and profit margin is the incorrect way to analyse and look at the performance of a distribution company. You would look at it on its regulated rate of return and the way it manages that rate of return across a period.

Q217 **Alan Brown:** So it's a regulated rate of return versus the high figures that we read about?

Keith Anderson: It is a regulated rate of return. If I over-earn against the rate of return, the regulator takes the money back. Half of it comes out of the next price review; half of it goes directly back to customers. It is impossible for me to over-earn constantly in a distribution company. The regulator takes the money back.

Every five years, the rate of return is reviewed, the reward is reviewed and it is shared between customers, and it goes back to the regulator in the next rate of return. At the last price control review, our rate of return was brought down. We are in the middle of a distribution price review. I think everybody expects the rate of return to come down, because of the earnings. They manage it through that rate of return, which gets reviewed every five years and changed every five years, and if you over-earn or earn in excess of what the regulator predicted, half of that goes back to customers and the next part of it gets changed in the next regulator review.

Q218 **Alan Brown:** How much has gone back to customers?

Keith Anderson: I don’t have that number here, but we can send that to you, absolutely.

Q219 **Tonia Antoniazzi:** I found your opening comments absolutely harrowing, to be honest with you. However, Keith, what you said about the social tariff was good and very interesting.

Michael, you talked about the short-term things that we need to do. Some of my questions are based on the delivery of the rebate scheme, which you touched on. Do you have concerns about how the Government’s £200 rebate scheme will be delivered by suppliers, and if so, how should those concerns be addressed?

Michael Lewis: Clearly, we have concerns, but the way we are addressing them is by working very closely with the Government and really trying to work out practical schemes for how we make sure that every customer is paid what they are due at the right time.

We have the systems to do it; it is just a question of the practicalities. Our biggest concern is the prepayment meter customers. There, again, all I can say is that we are working really hard with Government to make sure that we have the right way through the IT systems and also making sure that customers are aware of it, they know it is coming and they understand what it is for.

I do not think the issues are insurmountable, provided that all of the suppliers work to get the thing operating by October. Once we have the system in place, I think then that we have the ability to change it, if necessary, for instance to increase the size, if the Government decide that more help is needed, or to increase the period over which the levy is reclaimed if prices do not fall as quickly as we might hope. In principle, that system can be made very effective and we have between now and October to make it happen.

Q220 **Tonia Antoniazzi:** How much do you expect the scheme to cost suppliers to administer?

Michael Lewis: That is not a question we have discussed, to be perfectly honest, which leads me to believe that it is not a significant cost. It is certainly not something we have discussed; we are quite prepared and ready to do it.

Q221 **Tonia Antoniazzi:** Previously, with the Government electricity rebate scheme, 30% of households using legacy prepayment meters did not redeem their rebate. How will you engage customers to do that?

Michael Lewis: That is precisely the point I was alluding to. We need to communicate constantly, using all the different communications channels that we have, with each and every customer who is in that situation and make sure they are aware of it. The onus is on us to make sure that our customers understand what it is, what it is for and why they have been given it, and we intend to do that.

Q222 **Tonia Antoniazzi:** That is encouraging, but sometimes, when people are in debt or have problems paying, their relationship with their supplier—their relationship with the person they have that issue with—breaks down, so it will be especially difficult.

Michael Lewis: Absolutely, and we will be pushing out messages constantly to ensure that they are aware that this is coming and what it is for. Of course, it is something that the Government can do as well, through public information campaigns. But it is critically important that customers are aware of it, and that they understand what it is and what it is for.

Q223 **Tonia Antoniazzi:** Thank you, Michael. Simone, do you want to add to any of that?

Simone Rossi: Like Michael said, there are some operational details still being worked out on the way that the rebate works. Clearly, no matter how much we communicate, some people will be caught unawares anyway; that always happens. The key question is, in fact, on the subsequent phase of repayment—the opposite to the rebate—which is currently scheduled to happen in the next four years. Like we said at the beginning, that was deemed proportionate by Government in early February. We are now near the end of April and the situation has changed significantly, unfortunately for the worse, in terms of what the energy market looks like, so I sincerely expect Government to reassess the situation.

Q224 **Tonia Antoniazzi:** Do any of the three of you have any forecasts for how much this will cost to administer, or is it insignificant, as Michael said?

Simone Rossi: I would subscribe to his views. We handle, in our retail business, dozens of schemes where we take money from customers to pay for various things—policy costs and so on. It is a very complex machine and we are adding one cog to it, so, in essence, the machine is not changing dramatically. I would not be concerned about our ability to deliver the measures, provided that we solve some of these details.

Chris O'Shea: We will bear the cost of this scheme, whatever the cost is. Like Mr Lewis and Mr Rossi, I do not expect that to be a huge cost. We are trying different things. We have called over 100,000 of our most vulnerable customers, prior to sending them a letter about the direct debit, to talk to them about it.

We also fund the British Gas Energy Trust, which gives direct debt relief to customers of any energy company—not just British Gas—but also funds a number of debt charities. We have increased our funding there to ensure that local debt charities are able to proactively engage with energy customers and talk to them about what is going on with energy prices, about ways to reduce their energy consumption, and about the types of schemes available, either through Government or through some suppliers. We have our own support scheme and have put £6 million aside. We are trying, continually, to proactively engage with our customers.

On the prepayment meter customers—the most vulnerable customers—we do now, with smart meters, have the ability to automatically put credit on to those meters, so if the worst comes to the worst, we can actually put credit on. That is what we do when people run out of credit when they cannot load their meter card; we can send credit remotely. You could not do that previously if you had a coin-operated meter. So there are different ways that we can do it. It will be complex, but the cost is for us, in order to support our customers.

Q225 **Tonia Antoniazzi:** Those debt charities—are they publicly available? Are they published?

Chris O'Shea: Yes, they are. The British Gas Energy Trust is an independent trust funded by British Gas, and we have paid out—or they have paid out—hundreds of thousands of pounds in debt relief to non-British Gas customers. For example, OVO customers have had £200,000 from that and Octopus customers have had £100,000. Through that trust, we also fund almost 30 local charities. They work proactively in the community; they do some fantastic work. The trust is open to everybody in the UK—all 28 million households in the UK.

Keith Anderson: In terms of the cost of running the scheme, I think that the administrative cost will end up being relatively insignificant. The biggest issue with the cost of running the scheme will be those people who cannot afford to repay. I think that, because of the size and scale and what is likely to happen in October, although the £200 will help a little, there will be a number of people who will never be able to repay it, and then there will be a cost to be borne for that.

We have a hardship fund. We put £5 million through that last year. We have been putting £5 million through that hardship fund for the last few years, and we will continue to do that. People can get access to that; again, it is run independently of the company, and the people who apply to it and look to access it are assessed independently from our view as a company.

In addition, there is access to things such as the warm home discount, which is £140 per customer. The other thing we implemented a number of years ago for people who are really struggling—we worked with Citizens Advice and about 50 or 60 food banks across the country—is a credit voucher scheme for people on prepayment. If the food bank or Citizens Advice think the customer is in real danger of self-disconnection, we will give out credit vouchers, and we do not ask for repayment of them.

Q226 **Tonia Antoniazzi:** Is that a means for you to be able to raise awareness about the rebate scheme as well?

Keith Anderson: Yes, we will do that and make people aware of it. As I say, there is quite a lot of confusion out there about the rebate scheme—the loan scheme—and a number of people say that they do not want it. The industry will work through that—we will get it put out. My biggest concern is about repayment, because we are entering a period where, by the time we get to October, that level of support will not be anywhere near enough to help. We are already hearing from people on the phone about a massive, massive uplift in anxiety and real concern about inability to cope.

Q227 **Chair:** Help me understand. I do not want the £200, but I cannot reject it. Why have the Government said that I have to have it? Is it a billing systems issue? If they said that it needed to be targeted, could you do that for them?

Michael Lewis: Well, no. The way to look at the scheme is simply as a deferral of the price increase—that is the easiest way to conceptualise it. In many ways, that is what the price cap does: it defers price increases, because we hedge in advance. What the scheme says is, "This price increase is unprecedented. We need to take the top off that price increase and increase prices over a longer period by a smaller amount—hopefully, when the underlying wholesale price has fallen."

It is a way for customers and the system to manage this unprecedented increase in price. It is not a loan because it is not personally payable by an individual; it is attributable to each energy account. It is a way of mitigating this huge, unprecedented price spike, and it should be seen as that. The Government should be flexible in how it is used—for example, increasing it in October if we see prices going up to the levels they could well go up to, and increasing the time over which the levy is attached to energy bills going forward when wholesale prices have come down again.

Q228 **Chair:** I still do not know the answer to my question. You said that it relates to an energy account, not to a person, but people pay their energy bills, so it does relate to individuals. I will pay £40 every so often to pay back the £200. What I am saying is that I could personally stomach paying the higher bill now, and I would rather £200 more came off the accounts of some of my constituents who cannot afford to pay. I am trying to understand why the Government did not do that in the first place. Why was it not targeted? Was that a request from you guys because it is hard to deliver, or was it a policy decision in the Treasury?

Michael Lewis: I think it was a policy decision in the Treasury. The challenge is also about exactly where and who to target, because this price increase is so large that it is pushing a huge number of people into fuel poverty.

Simone Rossi: In general terms, we normally discuss this issue with the BEIS Minster and BEIS officials, and they normally discuss with the Treasury. It was back in December that we were summoned by the Secretary of State, and we discussed the perspective of potential Government interventions. The BEIS team then discussed that with the Treasury, and this is the outcome.

Q229 **Chair:** And you were all consulted on the design of the scheme?

Simone Rossi: We were not consulted on the design of the specific scheme that came out. We were consulted by the BEIS Secretary of State, Ministers and so on about the issues—

Chair: So you were just told.

Simone Rossi: —so we were listened to individually and collectively about what we thought the interventions could be. Then, they had to discuss with the Treasury—because of the cheque book, of course.

Chair: But you were not consulted on the design of the scheme. People are shaking their heads, so I am assuming no.

Q230 **Charlotte Nichols:** A whole host of issues concerning suppliers' treatment of customers has been reported to this Committee already, and—I am sure I am not alone—the mailbags of MPs around this table have been increasingly filling up with these issues. I am conscious of time, so I am going to have to do this in a fairly rapid-fire way. I have a few questions that I would like to get brief answers from people on.

First and foremost, one of the big issues that has been coming through is the increase in standing charges. Customers can do everything they can to reduce their energy usage because they are concerned about the unit price of gas and electricity, but if your supplier has doubled your standing charge before you have so much as flicked a lightbulb on, your bill has gone up significantly. I would like to know from each of you how much the standing charge for gas and electricity has gone up for your customers.

Michael Lewis: The biggest increase in the standing charge is of course the cost of the failed suppliers—£68. That is why the standing charge has gone up so much. It is because of the failure of the market last year—29 failed suppliers. All those costs have to be recovered from the system, and that is why the standing charge has gone up. We should be looking at how we avoid those kinds of regulatory failures in the future so that customers who were not with a failed supplier do not have to pay for customers who were with a failed supplier. That is essentially what has happened.

Q231 **Charlotte Nichols:** I understand that, but my question was: how much has the standing charge gone up for your customers?

Michael Lewis: I do not have the exact number with me, but £68 is the cost of the failed suppliers per bill. That is the largest contribution to the increase in the standing charge.

Q232 **Charlotte Nichols:** Mr Rossi?

Simone Rossi: I do not know the answer, but it would be the price cap set by Ofgem, because Ofgem determines the standing charge and the unit rate separately. What happened between the previous cap and the current cap is that the standing charge has gone up dramatically. The biggest reason, like Mike said, is the cost of paying for the bankruptcies of the suppliers that have gone bankrupt, and the disappearance of the customers' credit, which was used to run the businesses, as opposed to using customers' money. That was really a big blunder.

Q233 **Charlotte Nichols:** Mr O'Shea and Mr Anderson, do you have an actual figure?

Chris O'Shea: Ours has gone up from 25p a day for electricity to 45p a day, and gas has gone up by 1p a day from 26p to 27p. The reason that electricity has gone up is that everybody has electricity; not everybody has gas. That is how we are recovering. It is the cost of supplier failures that is driving that.

Keith Anderson: I don't have the exact number. I can send it to you.

Q234 **Charlotte Nichols:** For this one, I am going to go for a yes/no because of the time issue that we have this morning. Can you confirm whether your business on any occasion has participated in increasing people's direct debits disproportionately? We have seen, in some cases, direct debits doubling even for people who are currently in credit.

Michael Lewis: No.

Simone Rossi: No.

Chris O'Shea: No.

Keith Anderson: No.

Q235 **Charlotte Nichols:** Can you confirm whether your business on any occasion has participated in encouraging customers to move on to a more expensive fixed tariff, rather than the price cap—particularly those who have moved to a new home?

Michael Lewis: No.

Simone Rossi: No.

Chris O'Shea: No.

Keith Anderson: No.

Q236 **Charlotte Nichols:** Finally, can you confirm whether your business on any occasion has participated in chasing customers for their debts and making debt repayment a more important part of your business strategy?

Michael Lewis: Sorry, I did not catch the last part of the question.

Q237 **Charlotte Nichols:** Chasing customers for their debts and making debt repayment a more important part of your business strategy.

Michael Lewis: Well, we have not changed the way in which we approach debt as a consequence of this crisis. We have a very structured debt journey to try to help customers, first, to avoid getting into debt, and when they are in debt, to repay it.

Simone Rossi: No change for us.

Chris O'Shea: No. As I say, our outstanding debt has gone up by more than £50 million in the past year.

Keith Anderson: No change to the policy, but, in line with others, I would say to you that part of the process that we go through is about talking to customers, engaging with them and speaking to them. We then need to go through the stages of debt collection. We have not changed any of those—we have not changed that process—but part of the process for the sector and industry is that we need to be demonstrating and being seen to be trying to recover debt, because that debt cost gets spread across the rest of the customers through the regulatory process and the price cap. The regulator wants to make sure we are doing everything we should be doing to try to collect the debt.

Q238 **Paul Howell:** I am conscious of time, as has already been said. I recognise that a number of the things that I was going to talk about were covered earlier, particularly in Tonia's area. This is about customer services and the way you are looking after your customers. Those are the points that I want to come to. What we are hearing is that customer services are declining and call waiting times are on the rise, etc.

You have all talked about the increased pressure that is coming on to the customer base, and the way your organisation is having to work out what it is going to do. What have you done to make sure that your organisations can respond to this increase in demand, in terms of giving customers guidance and support to try to get them to a place that gives them the best chance of coping with what is an incredibly difficult situation?

Keith Anderson: We have been retraining a lot of our call centre advisers because we have stopped selling, in effect. The vast majority of sales channels have closed down because, as we go through this year and customers go through a maturity, the expectation is that over 95% of them will now default to the price cap, because that is what is happening in the sector.

That allows us to retrain and put more advisers on the frontline to help people as they contact us. In the past, we have had issues around call waiting times. We have got our call waiting time average down to below three minutes. We are resolving complaints—55% of them that come through are now resolved by the next working day, which has been increasing, and 85% of them are resolved by day 50.

Q239 **Paul Howell:** By day five-zero?

Keith Anderson: Yes, but 55% of them are resolved by the next working day, so the majority are resolved the next working day but some are more complicated and take longer to resolve. We are putting more people on to the helplines. As I say, we had 8,000 additional calls last week, all around vulnerability and ability to pay.

Q240 **Paul Howell:** I picked up the 8,000 earlier, but 50 days seems like a long time. Can I ask for a benchmark, Mr O'Shea?

Chris O'Shea: Because we have had 31 suppliers fail in the last 16 months, our customer service has been under pressure because we have had more people that have moved. Millions of customers have had to move supplier, but also the several million customers who have not had to move supplier read the papers and get concerned, so that has increased the propensity to call. We have then seen things such as the recent increase in prices. For example, we saw 750,000 meter reads in one day—that is five times the normal level.

We have tried do some things, but we don’t always get it right. For example, we sent texts to customers to say, “Text back your meter reading,” and that worked quite well. The phone lines and back systems for many companies failed to cope properly on 31 March and 1 April because of the huge increase in meter readings, but you have got to try to innovate and to try to figure out a different way to contact your customers, and also recognise that customers sometimes want to call.

Whenever we have taken on a new supplier through the supplier of last resort, we have taken on new customer service agents as well, because we know that will result a spike in telephone calls.

Q241 **Paul Howell:** Do you have a sense of how many more customer service agents you have dedicated to debt management as opposed to sales? Is it a 10% increase or a 100% increase?

Chris O’Shea: No, we haven’t increased the number of agents we have dedicated to debt management. For example, I said we made calls to 100,000 customers prior to increasing their direct debit, but we don’t see that as debt management but as customer service.

Paul Howell: Sorry, wrong terminology.

Chris O’Shea: It is important to talk through with customers how we can help them and how we can be more proactive in the discussions that we have, because it is very distressing for customer service agents. At the moment, they are the people who are bearing the brunt. They have customers calling them saying they are deeply concerned that they cannot pay their bills.

As I mentioned earlier, we are seeing a small impact just now compared to what we will see come October-time. We are always trying to improve our efficiency and to answer calls more quickly, but when you have a customer who is deeply distressed because they cannot pay their energy bill, then we are seeing an increase in the length of calls because our agents want to help the customers. Sometimes the only thing they can do to help is to listen to them, and that has a knock-on effect.

Q242 **Paul Howell:** I get that. As Mr Anderson said earlier, it is the price-volume that is going to impact the customers later in the year. Greater concern is going to mean greater time on the calls, without a shadow of doubt. Mr Rossi and Mr Lewis, can you answer the question?

Simone Rossi: You have made a good point. Regrettably, service levels have fallen across the industry. That can also be seen in the Citizens Advice service forecast where they track all sorts of parameters. As far as EDF is concerned, we have hired 300 new call agents in Britain over the last three months, which is the first time in my memory we have done that, because we have been losing money in this business for some time and have been trying to make it more efficient.

Q243 **Paul Howell:** To give context to that, how many did you have before, when you have added 300?

Simone Rossi: We had just short of 2,000 in the UK, so we have added 300 to that number.

Q244 **Paul Howell:** So, about a 15% increase.

Simone Rossi: Because we have taken over 20% more customers over the past few months, essentially because of taking over customers from failed suppliers. We face this double challenge of having a significantly increased base. Some of those customers are concerned because their current supplier failed, and they have more propensity to call and ask questions. At the same time, prices went through the roof, so other volumes. Let me say that, as an industry, we are facing a bit of struggle with traffic, and we are trying to get on top of that. Our service levels are beginning to improve.

As a country, hopefully, the continuing roll-out of smart meters will help. Reflecting on the issues of 31 March to submit meter readings, they were 20 times more than usual. Of course, had there been an automated system vastly available, it would have been easier to deal with. We are still maybe halfway through the programme, so we need to do more to complete smart metering, to improve the service.

Q245 **Paul Howell:** I get that the use of technology is a useful tool to help that position. If I have the maths right in my head, you said you had 20% more customers, but you have increased your call-handlers by only 15%, at a time when each person calling is wanting more. Do you think you need more, or do you think the technology is covering that gap?

Simone Rossi: You are right. We are also constantly changing the channels, so we have an increasing base of customers who regularly contact us through the app on their phones, or other systems that are actually better. It is a combination of all things.

Q246 **Paul Howell:** Okay. Finally, Mr Lewis.

Michael Lewis: We have spent the past two years completely reinventing our business. We have invested several hundred million pounds in restructuring. That means a new IT system and a move to what we call a universal agent model. That is, when you call you talk to only one person and they can answer all the queries, in order to drive a better customer experience. We have seen our Trustpilot score increase very significantly as a consequence, from below 2 with the old Npower customers to 4.3, and 3.5 with the E.ON customers up to 4.3.

We have seen an improvement overall in the customer experience, but there is no doubt that the challenge we are seeing at the moment is driving additional call volumes. We have around 10% more staff than we planned to have before this crisis unfolded.

Q247 **Paul Howell:** My understanding is that as a whole you have all dropped. The average is now down below 4, when you need get better.

Simone Rossi: On the Citizens Advice, yes. On Trustpilot it is maybe above 4, for some of us 4.3.

Q248 **Paul Howell:** I think it is a recognition that you all still need to get back to a better place than where you are. I have one final point. British Gas has recently announced it is going to ring-fence customer credit balances. Can I go along the line and ask what your positions are? Are you doing the same? Do you have any plans to, or are you not going to?

Michael Lewis: We do not, as a matter of fact, but we can pay back all customer credit balances on demand. We think Ofgem should regulate for that as soon as possible.

Simone Rossi: We do not yet do it but, as Mike said, we treat customers' money as theirs not ours, and we are fully supportive of the initiatives that Ofgem will probably take. It is a big contributor of the crisis that we have seen in the past, that customers' money has been used for different reasons. That should not happen again. It is a good measure, to protect the market from that misuse.

Keith Anderson: We do not do it right now. We are in a lot of conversations with Ofgem just now about bringing in a series of financial controls and stability controls over all participants in the market, looking at their liquidity, protection of credit balances, the strength of the balance sheet, at how aggressive their behaviour is in the sales market and in the growth market. That whole package of measures, which will include partial protection of credit balances, we believe will get implemented shortly.

Q249 **Alexander Stafford:** Picking up on your point, Mr Anderson, you talked about what you want to see from Ofgem, but I guess the question to everyone on the panel is this. What reforms do you want to see from Ofgem, to ensure that the past failures of the market are not repeated, whether that is resources, powers or proposals to improve the financial resilience of the market? You mentioned a few, Mr Anderson. Do you want to kick off?

Keith Anderson: Absolutely. A lot has gone on in the market over the last 12 to 18 months, and Ofgem's engagement with the industry, particularly over the last six to nine months, has been fantastic. They have been doing at least monthly, and occasionally weekly, calls depending on how fast things are changing in the marketplace, which has been very, very helpful and powerful.

I think Ofgem now fully understand the issues that we all face and that customers are facing, as well as some of the changes we need to bring through the system. I think that between now and October there will be a significant series of changes relating to the price cap, the methodology, the way the market works, controls for companies coming into the market, and controls over financial stability of the companies that operate in the market.

That is good, but the one thing that Ofgem cannot fix on their own and that requires Government help and policy is people's ability to pay. That, to me, is the biggest issue we face, outstripping everything else 10 times over. There are a lot of people out there who will not be able to pay their bill and who will struggle, and Ofgem do not have the powers to deal with that on their own. The industry does not have the power and the strength to deal with it all on its own. It requires a Government intervention.

Q250 **Alexander Stafford:** What have you seen of Ofgem's plans? Are you satisfied with what they are doing, and what more could they do?

Keith Anderson: The controls they are bringing in around new entrants to the market and what Ofgem expect of them look far better. The controls they are talking about bringing in relating how they monitor companies and their behaviour in the market look better and stronger, which is good; that is a critical part of the market.

There is a big debate about what happens to pricing in the market going forward, with new entrants coming in who do not have all the expensive hedges or the expense of everything that has gone on over the last six to nine months, and how that gets measured. The proposals coming through from Ofgem look sensible, but none of that deals with the biggest issue.

Chris O'Shea: We have been quite consistently calling for four things for quite some time. The first is to ring-fence customer credit balances. We already do that—we have £172 million of customers' money held separately.

People involved in running energy companies should pass a fit and proper person test and should not be allowed to be involved in running the company unless they pass that test. We have an insurance business in British Gas. I had to pass a fit and proper person test to be involved in the running of that business; it should apply to energy companies.

We need proper capital adequacy rules and proper risk management reviews. We need to treat energy retailers like financial services providers. We take a lot of customers' money. Fifty-one suppliers have gone bust in the last four and a bit years; they have taken £500 million of customers' money with them. I think that is scandalous.

To Ms Nichols's point about the standing charge, one third of the increase of the electricity standing charge is to repay customer credit balances that have disappeared. That money has been used to prop up companies' balance sheets. You have had evidence from other companies to say that they use that to pay for energy in advance, but nobody pays for their energy in advance. That is not true. No energy company pays in advance.

We get customers' money and it should be held separately. That applies in the legal profession and the banking profession. Some argue that it should be a fractional deposit, but that is not true. Over the six months of summer, people pre-pay for the six months of winter. At the end of the year, we had £294 million of customer credit balances; today, it is £178 million because people overpay in the summer and draw down in the winter. This is not something that customers want to leave with you for years.

I applaud Ofgem for publishing an open letter last week to say that they are thinking about this. The idea that you have transitional provisions should probably not be entertained. We should make sure that any company that is in our market is adequately capitalised. Shareholders have to make sure that there is enough capital. This is a risky business; you have to have proper risk management techniques. If you don’t have enough capital and you can’t raise the capital you need, you don’t belong in this market. There should be no transitional provision.

Some of the changes that Ofgem want to make may require primary legislation. As Keith Anderson said earlier about windfarms, the quicker we can do this, the better we can protect customers. Remember: every household in the UK pays £68 to cover the cost of failures, and a third of that is customers’ money that has gone missing or been misappropriated.

Finally—this is not for Ofgem—the Insolvency Service should pursue the managers, the directors, the executives of every failed company. Those who have misbehaved should feel the full force of the law. I think that would be a major deterrent.

The quicker we can put these four things in place, the quicker we can shake out of the market the people who are taking advantage of customers and using customers’ money. They may be the same people who are ramping up direct debits. I worry that we will see more failures later this year and that they may dwarf the failures we saw last year.

Q251 **Alexander Stafford:** Mr Rossi?

Simone Rossi: The interaction with Ofgem over the last few months has been excellent. They have been listening to all of us. It might have been a bit of a cacophony sometimes, but it was also been a source of agreement. It is clear that, through this process, there has been a lot of convergence among us on what is in the best interests of a well-functioning market.

My observation though the crisis is that Ofgem should probably be given more powers than they have. They have been aware of issues well before they manifested, but their hands have been tied; Ofgem operate within serious constraints. We should trust the regulator to do a good job of regulating the industry and give them a little more power.

On policy, I do not have any particularly bright ideas to add to what my colleagues just said. I simply observe that we are coming from the idolatry of switching—switching every year, jumping from tariff to tariff. Most of that was unsustainable and led to the bankruptcy of companies that were propped up by misuse of customer funds or renewables obligation funds.

Q252 **Alexander Stafford:** You would say that switching is not good for your business?

Simone Rossi: No, switching is good. It is very good that there competition and innovation in this business. We should not forget that there are some innovative and great companies that are not sitting here right now—we are very good, but there are others. But this has come at a cost, which may be very significant. There are big learnings for all us in this process.

Q253 **Alexander Stafford:** Finally, would you like to say something about Ofgem and the fair future plans?

Michael Lewis: I agree with most of what my colleagues said. I emphasise one point, which is fundamental and has to be got right. We must ensure that companies that come into this market put their own equity capital at risk. That has not been happening. They have been gambling with customers' money—not just their own customers' money, but our customers' money, because our customers are now having to pay an increase standing charge as a consequence of all the failures.

It is critical that companies that come in are properly capitalised, with equity at risk, so there is no moral hazard; and when they fail they lose their own money, not our customers' money. That is the single most important thing, and I think Ofgem get it and are working on it.

The other thing is that we need to make sure that people have the money to pay their bills as they fall due. Take the renewables obligation; they can wait for many months before paying that, and often when the companies have gone bust there is a big gap in their balance sheet, so they don't have the money to pay the ROC, which again is mutualised across the other suppliers. Those are the key things I would add.

Q254 **Andy McDonald:** Thank you to our witnesses for a fascinating session. It is interesting that Ofgem is not fit to repair these problems and the industry is not big enough or strong enough to do it by itself, so people will not be able to pay their bills as a net result of a collapsed market. It is fascinating. The point about socialising losses is not lost on anybody. I am sure we will take that on board.

Mr O'Shea, you talked about tests and ring-fencing, and people being fit and proper persons. In part, I agree, but your company has been rated the worst supplier on taking customers through the supplier of last resort process, with slow onboarding, poor customer services and delays to customers receiving their credit balances. Martin Lewis told us that some people are waiting four months to get their credit balances. It is all well and good to ringfence it, but how has that happened? Why is that such a poor reflection on your company?

Chris O'Shea: It has been deeply distressing. When a supplier goes bust, Ofgem will transfer the customers, but an administrator is appointed for the company that has failed. When we take on the customers—we have taken on nine customer books—we need a transitional service agreement. In one case, it took three months for that to be negotiated.

The administrator of the failed company is not incentivised to do anything quickly. They would not give us any information on credit balances. I have personally spoken to customers who have transferred over, and who have had credit balances, but we have this set of direct debits for them. They are several months into their journey with British Gas, and they are quite rightly deeply unhappy. It is no consolation to them when I point out that we have not yet received that information.

The two worst transfers we have had are from PFP and People's Energy. It is deeply distressing because, even when people have screenshots, you say, "Look, I would love to take that, but I need to get the information." So, we have pushed Ofgem to push the administrators. The worst one we have seen has been Alvarez and Marsal, who, with People's Energy, took three months to negotiate a transitional services agreement. Not only does it not do British Gas any good, but it does also not do our industry any good.

We need to toughen that up; we need a more streamlined process; and we need to make sure that those administrators are acting in the best interests of the customers. They are actually acting in the best interests of creditors, who are often the shareholders and directors, and that is not right.

Simone Rossi: I totally subscribe to those views. Our experience with administrators has been awful—behaviour has been contrary to the interests of customers. Just looking at the creditors, I understand that that is what they have to do by law, but under the circumstances, it has aggravated an already-difficult situation.

Q255 **Andy McDonald:** What is the feed-in to BEIS on your experience of dealing with those administrators? We hear with regularity that insolvency needs root-and-branch reform. Are you making direct representations on that, and is it something that BEIS can hang on to and say, "This is how we need to reinterpret this to change the law around administration"?

Michael Lewis: The fundamental point is that when a company goes into supplier of last resort, the focus should be on recovering money for customers, full stop. That should be the primary aim and the supplier of last resort should be around that, rather than trying to deal with other creditors. Once you have fulfilled that requirement, you can look at other creditors. That needs to be reformed so that the supplier of last resort process reflects that customers come first.

Chris O'Shea: The way the process is set up just now is that there is no incentive for Ofgem to intervene before a supplier fails. If a supplier is hedged and those hedges have value—basically, if they bought energy forward and have value—if Ofgem intervenes, the value of those hedges do not attach to the customer book; they go to creditors and to shareholders. We saw one company fail as a result of shareholders pulling its support. They got their money back; our customers had to fund that.

We had companies that basically pulled out when the hedges could be cashed in.

I think if we want to change that—we have made this representation to Ofgem—Ofgem needs to be able to step in immediately and take over the complete running of the company. You enter into hedges on behalf of your customers. Currently, the insolvency law splits those hedges with the customers—those hedges should attach to the customers.

Sometimes we have to wait until there is no value in the hedge, and that increases the loss, so there is a need for reform, whether it is broader reform of insolvency law, or simply increased powers for Ofgem to step in earlier and to leave shareholders until the end. As I say, we have seen one case that has really highlighted what is wrong with the system.

Simone Rossi: I subscribe to all that, but one further point is that when a company enters supplier of last resort, the obligations to the supplier licence have lifted instantly. That means that the administrators of the company have literally no obligation to adhere to the standards that the supplier licence requires. That is a further point for potential reform that would enable what has been said.

Of course, one could say that maybe we are shutting the stable door after the horses have bolted, because so many companies have gone bust, but you never know—maybe in the future we will still need these provisions. I think it is still worthwhile looking into those reforms.

Q256 **Andy McDonald:** I would suggest that that applies more widely, beyond the energy sector, but that is really helpful—thank you. On the energy cap itself, Octopus told the Committee that in normal market conditions, "there are sufficient margins baked into the price cap to allow for healthy competition between companies that are efficient." Do you agree with Octopus, and if not, why not?

Michael Lewis: There are a number of things to say about the price cap. The fundamental profitability allowed is 1.9%; in practice, hardly anybody is making any profit at all. In fact, the entire sector has been loss-making for several years, which is why 29 companies have gone bust.

We have to look at the price cap and its interaction with the market. We have a situation with a quasi-regulated price and a market operating at the same time. Our preference would be to move away from the evergreen standard variable tariff towards 12-month contracts, and to have the cap moved from a fixed cap to a relative cap to your lowest price.

That would keep everybody not able to offer deeply discounted prices to new customers, while leaving existing customers on high prices. It would also mean that the market could re-establish the right rhythm, so to speak. There is a problem with the cap as it is. It forces us to hedge in a certain way, and that has been at the root of a lot of the problems we've seen.

Q257 **Andy McDonald:** If it is twice a year, as it is going to be this year, and we move to quarterly, how does that interrupt that rhythm and the sort of structure you are talking about?

Michael Lewis: If you move to quarterly, it reduces the volume risk, because we have to hedge for those customers. We have to hedge for three-month periods rather than six-month periods. But it increases another problem called backwardation. I know it gets very technical—that's the point. The key point is that a fixed-price tariff in a market is very difficult, without creating unintended consequences. If you move to a relative cap, you move away from those unintended consequences, plus a social tariff for vulnerable customers.

Simone Rossi: I am in favour of price regulation. Abandoning price regulation would be a mistake because customers have to be protected. The current price cap in normal market circumstances—not at the moment, when the question is about what the new normal is—was probably fairly compatible with healthy competition. The problem is that the competition was not healthy at all, because it was polluted by all the things we were talking about.

Your question reminds me of the four-hour session we worked together with Ofgem a month ago to discuss what kind of tweaks or adjustments could be done to the price cap to make it more functioning. It is fair to say that there is a bit of a debate about different technical solutions. There are some defects, which the current structure has highlighted pretty evidently.

Maybe some improvements can be done but, in general terms, I do not disagree with the general statement by Octopus, but there is a lot of detail underneath to be analysed. The key message for me is that this industry will require continuous price regulation, to ensure that it works for most people.

Q258 **Andy McDonald:** If no one else wants to come in on that, I will move on quickly. I won't bother to revisit the issue of relative tariffs and social tariffs, because witnesses have answered that. If people are going to be in their homes this winter suffering from hypothermia, which is a likely outcome and has happened in the past, are you satisfied that your internal systems are adequate to flag and identify those people in advance?

The fear of people round this table is that they are going to have constituents dying in their own homes this winter. Can you say a little about the state of readiness of your systems in terms of flagging, identifying and intervening?

Keith Anderson: We have a priority services register, so we actively promote it and encourage people. We are relying on people telling us, as we do not get access to Department for Work and Pensions data and so on. There is a reliance on customer communication. We go out and proactively ask people to let us know, to come and tell us, but if the customer does not tell us, it is very difficult for us to find out and pre-empt an issue. That is just the way the process is structured now.

We have various ways through our networks business as well, so the distribution companies also all have priority services registers, and have a register of people that they can notify companies of if they think there is an issue or a problem. That is why we have the relationship we have with Citizens Advice and the food banks, because what we quite often find is that people are sometimes embarrassed or reluctant to come to us, but they will go to Citizens Advice or the food banks, and they can alert us. That is when we bring in the prepayment load for people or the giveaway, and we can start putting people on a different kind of meter or a different kind of prepayment plan.

We try and be as proactive as we can, but we are completely reliant on being told. It is difficult—really, really tough.

Simone Rossi: Following all your questions, I wonder whether—because we will be in unknown territory next winter—there is a way that we can monitor customers who have not been recharging their prepayment meter for an unusually long period of time, perhaps trying to contact them. Maybe we need to think if we can come up with new ways.

Of course, if customers are in a very deprived situation, it is unlikely that they will see an email if we send them one. But we should leave no stones unturned and see if there are ways that we can deal with an unprecedented situation next winter.

Q259 **Mark Pawsey:** I just want to ask our witnesses, all of whom represent the original big six, what should be done in the future to create better competition in the market. Clearly, what has happened has failed, too many suppliers came into the market, and we have got this £68 standing charge that has been mentioned.

One of the reasons those companies were encouraged was, quite frankly, because you guys were not competing effectively with one another. You were relying on the loyalty incentive to keep customers tied in. How would you bring competition into the market, assuming that we get into a more stable situation in the future? Just one idea please, from each of you.

Michael Lewis: I already said that I think we should move to a relative price cap, so that we cannot have these big—

Q260 **Mark Pawsey:** Leaving aside the issues of price caps and Ofgem, which were in the answers to Mr Stafford, what else can we do to get you guys to compete?

Michael Lewis: We are competing very heavily, and we have been. I think there is nothing more to add than what we have said already—reform the price cap, reform the way in which companies who are allowed to enter the market are allowed to compete—

Mark Pawsey: We agree with all of that.

Michael Lewis: If we do all of that, and we carry it out effectively, we will have a competitive market.

Simone Rossi: For me, competition is very healthy, but we should remember that there are maybe 15 million or 20 million households that do not have any propensity to change supplier. You cannot blame it on them, so come what may the market needs to protect those who do not change. This is a feature of this kind of stuff. People engage with all sorts of markets, but some people just do not engage with—

Q261 **Mark Pawsey:** Mr O'Shea, how about picking up some of the innovative ideas that some of the entrants to the market have brought?

Chris O'Shea: I think first we have to think about what it is that we are trying to get. We designed a price cap, and we then encouraged customers to switch to tariffs that were clearly unsustainable. Now we have billions of pounds that have been—

Q262 **Mark Pawsey:** We know what has happened. What needs to happen in the future?

Chris O'Shea: What we need to see is shareholders' money at risk and an active market, so that when a company fails shareholders take the hit. There are many examples of markets—

Q263 **Mark Pawsey:** You have told us that already. I am looking for something new and different that will make competition work in your sector between you and the other witnesses.

Chris O'Shea: We need to compete on customer service and on price. We have had the illusion of competition for the past several years and we have all participated in that.

Q264 **Mark Pawsey:** So, Mr Anderson, competition has been an illusion. Is that right?

Keith Anderson: I think the market is competitive. What I would say is that what we should see in the future, and what I want to see, is competition based around a much broader spectrum.

If you want to talk about innovation, then competition should be around what we are going to do about the incentivisation of heat pumps. What are we doing about the incentivisation of the transfer to EVs and the installation of EV chargers? What are we doing about solar panels for people's homes? What are we doing about battery storage for people's homes?

You then start to look at the energy wholesale market, and you look at how people can shift and move power about, and how they can be incentivised to do it. That is where all the innovation is, and that is where you will see a completely different form of competition in the future—a competition on, "How do we support customers getting to net zero? How do we support customers in bringing down their energy costs? How do we support customers in managing and stabilising their energy usage?" That is where the competition will be in future.

The one thing we need to watch in doing that is that there is an offset: if I want to convince you to install a heat pump, an EV or a solar panel, I want to keep you as a customer for a long time. The focus on switching has to change. I am not saying switching is bad, but if it is all we worry about—which is what happened in the market; the regulator just worried about switching rates—I think it disincentivises the behaviour to see the real competition on innovation, on the new services, and on getting us to net zero.

Michael Lewis: Can I just add one comment to that, very briefly? Building on what Keith said, this whole new market of flexible tariffs can only happen if we have 100% roll-out of smart meters, so one thing is to make the smart meter programme mandatory.

Chair: Thank you for that, and thank you to all four of you for your contributions this morning. I am sorry that we have kept you for half an hour longer than we intended in this warm room, but we are grateful to all of you.