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

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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 265 to 310

Witnesses

II: Hayden Wood, Chief Executive Officer and co-founder, Bulb.

Written evidence from witnesses:

– Hayden Wood, CEO & Co-founder, Bulb [EPM0021]

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Examination of witness

Witness: Hayden Wood.

Q265 **Chair:** We are now moving on to panel 2, which I understand will be on the screen. Hayden Wood, CEO of Bulb Energy, is with us.

Mr Wood, I understand from your biography that you provided management consultancy to the energy sector before you started Bulb Energy. Was that the basis on which you felt qualified to start an energy company?

Hayden Wood: Yes. My co-founder and I had both worked in the energy sector before, and we noticed there were some things that we thought could change—could be made better for consumers. It was with that intention and idea that we started the company.

Q266 **Chair:** Did the regulator Ofgem ask you about your experience as founders for running an energy company?

Hayden Wood: We had early meetings with Ofgem, yes. We also performed fit and proper tests for all the senior executives at the company as part of the licence conditions, so yes, I would say that that was a process that we went through.

Q267 **Chair:** What did you learn from going through the fit and proper person test with the regulator? Was it just an easy thing to do, or did you have to prepare or learn something in advance?

Hayden Wood: It was a process that we ran ourselves internally, and then made a declaration to Ofgem.

Q268 **Chair:** So you decided you were a fit and proper person, and the regulator took your self-declaration.

Hayden Wood: We provided back-up information to that, and then I believe the regulator reviewed that.

Q269 **Chair:** Thank you. That is useful, because we are looking at whether this fit and proper person test needs to be reformed. How much of your own capital did you put into Bulb Energy?

Hayden Wood: I put all my personal savings into the company in 2015.

Q270 **Chair:** And how much wealth have you created, or taken out of the business, over that time?

Hayden Wood: My salary now, or in the last year that the company was running, was £250,000 a year.

Q271 **Chair:** And you are still receiving a salary, aren't you, I think?

Hayden Wood: Yes. The administrators, both Bulb and Simple, asked me to stay on to help. The reason I stayed on was that we wanted to support customers and have a smooth transition into special administration.

Everything we are doing in the company right now is to try to minimise costs for consumers and taxpayers, and hopefully effect a sale of the company out of special administration to, again, reduce costs for Government.

Q272 **Chair:** What is your salary at the moment, which is being paid by taxpayers?

Hayden Wood: It is the same.

Q273 **Chair:** The same—£250,000 a year. The reason I ask the questions about how much of your own capital you put in and how much wealth you have created is that we just heard, in the previous panel, that lots of the challenger brands were able to essentially use customers' money to build businesses using risky financial strategies, without taking any personal stake or personal pain when those companies have gone bust. Now the taxpayer, or the billpayer, is having to pick up the tab. It was reported in, I think, the *Telegraph*, that you personally had received around £120 million through the time that Bulb existed. Do you dispute that figure?

Hayden Wood: I think that figure is taken from an article that was written maybe two or three years ago. In that article, the journalist assumed the value of my personal shareholding in Bulb at the last valuation of the company when it raised funds, and applied an assumed valuation to those figures. When Bulb went into special administration, of course all my shareholding was wiped out, as was the shareholding of other people who owned shares in Bulb—it was taken to zero.

Bulb's approach was to raise equity funding to fund the business. We raised £1.3 million from investors to start the company. A year or so later, we raised £5.7 million, and then 18 months after that, we raised £60 million of investment—to fund innovation and the software we were developing to help give customers a better experience, and to pay for marketing to acquire customers.

Q274 **Chair:** Understood. Presumably, you paid yourself dividends?

Hayden Wood: No, we have never paid a dividend.

Chair: Okay. Thank you for that.

Q275 **Charlotte Nichols:** I declare an interest: I am a customer of Bulb. The collapse of Bulb is expected to cost the taxpayer up to £3 billion. This is the biggest state bail-out since the collapse of Royal Bank of Scotland. In your view, what led to the collapse of Bulb and do you accept that a risky hedging strategy and insufficient credit lines were primary factors?

Hayden Wood: First, I would like to say thank you for inviting me today. I am very sorry for the way things turned out with Bulb. We started the company to serve the customer and I am disappointed in the outcome. Everything we have been doing, ever since the company was founded, but especially over the last 18 months, has been to try and avoid special administration, minimise costs for consumers and minimise costs for taxpayers.

This has been an extremely challenging time for the energy sector. I believe in the previous session you heard from other speakers that around 29 suppliers have failed since the energy crisis started and so, of course, lessons will need to be learned—that is why I am providing evidence today, and I hope that is what we can do.

In the case of Bulb, we reached the point in November of last year where the company had more than 1.5 million customers. The price cap that was set assumed a cost of gas of around 70p per therm. The actual cost around that time was about 400p per therm—over five times higher. That meant that, in November, Bulb had an obligation to supply customers with energy, but we couldn't afford the losses that supplying that energy would require.

For a long time, we had been involved in fundraising discussions and eventually sales discussions, but when those funding and sales discussions fell through, we had no reasonable prospect of being able to fund those losses for customers and that is when we made the difficult choice to enter special administration.

Q276 **Charlotte Nichols:** On Bulb's collapse, the former CEO of Ofgem, Dermot Nolan, stated that: "For Bulb to blame anybody but themselves is not reasonable. The price cap is an imperfect tool, but it was predictable and clear. Bulb knew all of that, made conscious choices about its own hedging policy, and it failed." Why were you not hedging to a greater extent, in line with the price cap?

Hayden Wood: I completely agree. I think we at Bulb need to take—we should take—responsibility for how the business failed; that is why the shareholders have been completely wiped out. The challenge that we had as an independent and new energy company that was founded only in 2015 was that we didn't have access to those long-term hedging markets that the incumbents did have access to. So we had a hedging policy of procuring energy for our customers six months in advance, but the price cap methodology—Dermot Nolan is absolutely right; it was transparent—required us to hedge out for 12 to 14 months in order to match our wholesale procurement with the price cap, but we just did not have access to those seven to 14-month markets through our trading counterparties. In the beginning of 2021, we had begun fundraising conversations and tried to raise funding so that we could accumulate the collateral to get access to those markets, but we were unable to do that.

Q277 **Charlotte Nichols:** So Bulb's business model relied on organic growth in customer numbers until it reached profitability. Given that customer numbers, and revenues, increased in 2019-20 and 2020-21 but net losses remained at around £64 million, how realistic do you think this strategy was, and how and when were you planning on making a profit?

Hayden Wood: We always set our prices at a level whereby we would make a small profit on each customer that we were supplying. And we therefore saw the business model as being very realistic: when we eventually slowed growth, we would make a profit, an EBITDA profit, across the whole business. Of course, in the early years of the company, we didn’t do that; we made losses, because we were investing at the time in customer growth and R&D, and that’s what we had raised the equity funding for.

Q278 **Charlotte Nichols:** Were you using customer credit balances as working capital, and if so, why?

Hayden Wood: We were not using customer credit balances to finance growth. One of the decisions we made as a board very early on was to treat those two pools of funds separately. So for investments we were making in customer acquisition and R&D, we would raise equity funding. But we did have customer credit balances when the company went into administration. If you would like, I can talk a little bit about our policy around customer credit balances and how we treated them.

Charlotte Nichols: Yes, that would be helpful; thank you.

Hayden Wood: We had an approach at Bulb whereby we would set our members’—you mentioned that you were a member. We would set your monthly payments at a level whereby, based on your current account balance and your expected usage over the next 12 months, your balance would return to zero. So our algorithm would try to minimise our customer credit balances and our customer credit debts and keep them as close to zero as possible.

Of course, members’ energy usage changes month to month: we use more energy in the winter and less energy in the summer. That meant that at some points in the year, if a member was paying the same amount each month, they would have a credit balance. You would tend to see members with more credit balances at the end of summer, and then you would see more members with a negative balance or a debt at the end of winter. So with the company going into administration in November, we did have members who had positive account balances.

Q279 **Paul Howell:** To come back to the accounts, one of the things that we have talked about is the way the cash flow suffered from May ’21, but when the accounts were finalised, you had your largest ever bank balance, at £119 million. What happened to create that?

Hayden Wood: Like my answer to the previous question, we made a small profit on each of the customers that we were supplying. So that small profit would have fed into the bank balance. I guess it is a strange situation to think that a company would go into administration when it had around £120 million in the bank, but the decision to go into administration was not because of how much cash we had in the bank. It was because we knew that over the next six months the company would not be able to fund the losses in supplying energy to customers.

As soon as we lost reasonable prospects of completing a sale or completing a fundraise, in order to minimise costs to the taxpayer and to consumers, we had to put the company into administration at that point.

Q280 **Paul Howell:** Your scenario is quite unusual. Most companies go bust, not because of profitability but because of cashflow. I understand what you are saying and the forward view that creates that; it was worth asking the question.

One thing that happened in the last accounts was that you had a one-off adjustment of £81 million that reduced the loss from £116 million to £35 million. Could you explain what the one-off exceptional item was?

Hayden Wood: Absolutely. We were in the middle of a sales process where we had multiple interested parties that were going to acquire Bulb. That would mean that there would be no special administration and no additional cost for the taxpayer or energy consumer. We were pursuing that process as hard as we could. We were informed by one of our trading counterparties that there was a risk that they would sell the hedges that we had purchased in advance, for what I believe was the latter half of December.

We took a view that there was a strong likelihood of the sales process completing, and that there was a high risk of those hedges diminishing in value, through a disorganised sale, executed by the trading counterparty, not by ourselves. In order to extend the runway of the company and increase the chances of completing that sale process and avoiding special administration, we sold some of the hedges for the second half of December, in order to provide that capital and that additional runway to support the sales process.

Q281 **Paul Howell:** You have just answered my next question. In terms of hedges, were those the only hedges you sold on? Did you attempt to sell on any others? Have you sold them in the past?

Hayden Wood: No, no. That was the only time. It was an unprecedented situation; that was the only time we did that.

Q282 **Andy McDonald:** Mr Wood, the company has gone bust and been underwritten by the Government. Why should taxpayers continue to pay your salary of a quarter of a million pounds a year? Is that morally justifiable?

Hayden Wood: I think everything we are doing right now is to try to complete a sale of the company, so that we can minimise the cost to taxpayers and the disruption to consumers. The team and I have worked incredibly hard over the past six months on the sales process and on executing a very complicated price change, and supporting customers through what has already been a very challenging time in the energy market.

Q283 **Andy McDonald:** Okay. Quite frankly, a lot of us find that staggering; that you continue to be paid the same salary as you were pre-collapse. In 2021, prior to the administration, you tried to raise money to stay afloat. That was either through an equity issue or the sale of the business. What offers did you receive? Why weren't they successful?

Hayden Wood: There were about three stages to this process. The first stage was a fundraising process, the second stage was a sale process and the third stage was a sale process that required Government support. The reason we went through each of those three stages was because energy prices were going up and up and up, making a sale of the business more and more challenging.

Q284 **Andy McDonald:** Yes. So what offers did you get?

Hayden Wood: I will talk about the offers at the final stage—stage 3. I am bound by non-disclosure agreements so I cannot share the specific names of the energy suppliers or the details of the commercials, but we had multiple interested parties at the final stage.

Through the months of October and November we had been working with Ofgem on a structure and a process for how these buyers could acquire Bulb, inject private capital into the business and then, as part of that process, access funding that is similar to the supplier of last resort process that had been used with other energy suppliers. We had been calculating those figures in detail and had worked out that it would save both the taxpayer and the consumer a significant sum of money to go through that process. We took that proposal to BEIS, but they decided not to pursue it.

Q285 **Andy McDonald:** *The Guardian* reports that you were determined to raise money at higher valuations than you were being offered by investors. Did you reject offers that were made to you? Why did you think you were worth more than potential investors thought you were worth?

Hayden Wood: Sorry, I didn't fully understand your first question. If your question is, "Did we reject offers from investors?", then the answer is no. We didn't reject any offers. We didn't assume that the company was worth any value. Just to say it again, everything we were doing from late summer and autumn onwards was trying to avoid special administration and avoid the cost to taxpayers. There was an acceptance by the board and all the major shareholders that shares in the company were worth nothing and we were not trying to retain share value at that point.

Q286 **Alan Brown:** It has been regularly reported that since Bulb went into the special administration regime, the Government have blocked it trying to hedge forward. We know that one of the reasons Bulb went into administration was because of a lack of hedging. Is it correct that the Government blocked that? If so, were you consulted on that decision? Who would consult you on that?

Hayden Wood: I want to be as helpful as possible today, but when Bulb went into administration, I was no longer an active director of the company or responsible for the decisions being made by the company. Those decisions were being made by the administrators, alongside Price Bailey, who were providing the funding for the special administration. If you need to ask questions about the decisions made by the administrators and how they chose to hedge energy forward—

Q287 **Alan Brown:** Okay. So you don't know if the Government blocked hedging, looking ahead.

Hayden Wood: I was not involved, but I believe that those would have been conversations between Teneo and BEIS.

Q288 **Alan Brown:** Do you think the Government took the decision not to hedge forward?

Hayden Wood: I wasn't party to those conversations; I cannot tell you either way.

Q289 **Alan Brown:** So you do not know? You are still getting paid your £250,000 salary, but you don't know if the Government blocked hedging or not?

Hayden Wood: No, I don't. I was not in that meeting.

Q290 **Alan Brown:** Do you think that, as part of the special administration process, a buyer will be found for Bulb should there not be hedging forward? What incentive is there to buy Bulb? If Bulb has already failed and there is no hedging and no additional assets, why would somebody buy Bulb?

Hayden Wood: You touch on something that is very important for potential acquirers. When you acquire the business, there is of course a risk that wholesale prices move, and without the hedges, that would increase the liability that any new owner had. Again, that is subject to ongoing commercial discussions between the administrators and potential new owners. I cannot share more.

Q291 **Alan Brown:** We are now five months down the line in the special administration regime. You are saying that you are not the decision maker anymore, but what might be a realistic timescale for a sale, if it happens; and if it does not happen, what are the next steps?

Hayden Wood: I am very sorry—I don't mean to be unhelpful and I am not trying to block your questions, but I cannot speak about what views the administrator may or may not have on the length of the sale process, or what they will do if there is no sale.

Q292 **Alan Brown:** Okay, but you stayed on as chief executive and part of that role was to help to get a sale and protect Bulb customers. Surely, you have a feel about whether a sale is imminent or something else will have to happen.

Hayden Wood: I don't think it would be responsible of me to share details of a sales process that is ongoing right now in a public forum. What we are trying to do is complete a sale process as quickly as possible in order to minimise costs to consumers and to taxpayers. I don't want to do anything that could jeopardise that.

Q293 **Alexander Stafford:** Thank you for taking the time to speak to us, Hayden. I'd like to hear a bit more about remuneration and executives. You are still earning £250,000 a year; what is your bonus structure?

Hayden Wood: My personal bonus structure?

Alexander Stafford: Yes.

Hayden Wood: I have never received a bonus.

Q294 **Alexander Stafford:** You have never received a bonus—and you are not in line to receive any bonus at the moment. Is that correct?

Hayden Wood: No, I am not.

Q295 **Alexander Stafford:** Have your executive team and your directors been paid bonuses previously, and what was the scope of their bonus structures?

Hayden Wood: In the six-year history of the company, members of the top team have received bonuses when they outperformed and achieved their goals. I don't think there have been any bonuses in the top team for the last two years, from memory.

Q296 **Alexander Stafford:** So you are saying the bonuses were linked to performance?

Hayden Wood: Historically, yes.

Q297 **Alexander Stafford:** But you didn't get a bonus. Isn't that quite odd for a chief executive?

Hayden Wood: Yes, but I chose not to receive one—or the board chose not to.

Q298 **Alexander Stafford:** Was there provision for you to receive a bonus and, frankly, you did not achieve your goals, or was there no provision for you to receive a bonus?

Hayden Wood: There was no provision for me to receive a bonus.

Q299 **Alexander Stafford:** I find that quite surprising for such a large company. Do you think that if you had received a bonus linked to performance you would have done a better job? At the moment, you are telling me you are getting £250,000 regardless of whether the company does well or badly. Where is your incentive? What is it?

Hayden Wood: My incentive is that the reason we started the company was to provide good service to customers, lower their bills, lower their carbon emissions and, right now, we want to minimise the cost for taxpayers.

Q300 **Alexander Stafford:** Ultimately, you failed in that. You did not provide a good service to customers, because the company went under. You failed in that and you failed to reform the company. You say that none of the directors has received a bonus for two years, so you have known for two years that Bulb has been struggling and underperforming woefully. Wasn't that a massive red flag?

Also, you say you had been worrying about the company for 18 months. That is a six-year gap. Anyone who has worked in business knows that bonuses are looked at for quite some time before that, so clearly you were worried about the performance of the company and of directors for more than two years.

Hayden Wood: I do not agree with your analysis that a bonus payment is the only way of judging whether somebody is performing in their role.

Q301 **Alexander Stafford:** But you have already said that bonuses were linked to performance. If they did not get the bonus, that is because their performance was not up to it, which means that the company was not performing how it should. That is how I read bonus payments linked to performance, and if they have not been paid for over two years it means that the executives have not been performing for over two years, which means that that was a problem.

Hayden Wood: Speaking personally, I think that the team at Bulb have performed very well. I am proud of the team that we have—

Q302 **Alexander Stafford:** Sorry, excuse me—you are proud? Your team worked very well, and you are proud of the company going under and over 1 million customers being out of pocket? We have heard that every single one of your customers is costing those who didn't go with Bulb £68 in their standard tariff. And that is doing well?

Hayden Wood: No, I don't think so. I was going to continue by saying that the energy crisis of last year was, I think everyone agrees, unprecedented, and unfortunately it led to the company failing. A lot of the senior executives in our company were incentivised by their ownership of shares, not by their salary. That is why a lot of people buy in to start-ups and companies like Bulb, and those individuals and executives have received no value for the options they received through that remuneration scheme.

Alexander Stafford: I am not sure that that answers my question, but I find it odd that, once again, you go back to the gas prices last year and blaming them for Bulb's issues, when you have not paid any performance bonuses for over two years, which implies a deep-rooted problem.

Q303 **Richard Fuller:** Mr Wood, when did you realise you were out of your depth?

Hayden Wood: I think we realised in autumn last year that it was a very, very challenging time for the company. That is why we needed to change the fundraising process into a sale process, and eventually made the choice to put the company into administration.

Q304 **Richard Fuller:** Was that a decision that you came to yourself, or you and your colleague Mr Gudka, or did you have strong support on your board from an array of experienced executives who had run more than one business before?

Hayden Wood: The latter. We had a strong board of experienced executives and we made the decision as a board.

Q305 **Chair:** Mr Wood, I sense a great deal of personal regret that your business failed, and I am grateful that you have taken the time to answer our questions today. It is easy for us to say in retrospect that you were not hedging properly, you did not have proper capital adequacy and you were taking risky business decisions.

I am trying to understand whether you knew it was high risk and decided to do it anyway; you just did not know that it was high risk and you sort of tried to find your way through this high-growth, tech-led, climate change, "Let's change the world" kind of business; or you got in that position because the regulator was not coming in and checking your financial reporting, capital adequacy and hedging strategy adequately, so you did not have proper supervision and oversight. Which was it—or was it all three?

Hayden Wood: I can assure you that we never adopted a high-risk approach where we were willing to risk the company failing.

Q306 **Chair:** That's the key thing, isn't it? You didn't think it was a high-risk strategy, but it was, and you should have known that. Either you didn't know it because you didn't have people who knew it was a high-risk strategy telling you that it was, or the regulator wasn't telling you that it was. At which point did you realise it was a high-risk strategy? When you had failed?

Hayden Wood: We went through the global pandemic in 2020, and at that point Ofgem asked all suppliers to perform—

Q307 **Chair:** We are aware of that—financial reporting—

Hayden Wood: Financial resilience checks—scenario checks. Then, from that point onwards, I think every supplier was submitting monthly financials to Ofgem across a variety of scenarios.

Q308 **Chair:** So it was at that point that the regulator said to you, "There is a risk here."

Hayden Wood: And by the way, those financial scenarios that we submitted to Ofgem were something that we had been running within the company for years beforehand.

Q309 **Chair:** But you thought it was fine.

Hayden Wood: Up until the summer—actually, the autumn—of last year, we had been running those models, and we had not seen a significant risk. In fact, we had been told by Ofgem that autumn that they saw Bulb as a well-run supplier—a good company. Hindsight is a wonderful thing, but with the benefit of hindsight, we would have begun those fundraising conversations sooner, completed a funding round in 2020 during the pandemic, had increased collateral and been able to hedge out for longer periods of time, but we—

Q310 **Chair:** That's the key point, isn't it? You didn't have the money to hedge properly to protect your customers, and then you went bust. The regulator didn't have that discussion with you sooner, and neither you nor your board recognised that as a risk. Ultimately, that is why you failed, and those are the lessons that we, from a policy and regulatory perspective, need to learn, as well as you and other people in the sector. Do you agree with that summary at the end of this session?

Hayden Wood: Yes, I think that is a fair summary.

Chair: Okay. Mr Wood, thanks so much for taking the time. We really appreciate it. I know it is not a comfortable process to go through in front of a Select Committee, but we are grateful to you.