

Business, Energy and Industrial Strategy Committee

Oral evidence: Energy pricing and the future of the energy market, HC 236

Tuesday 24 May 2022

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

Questions 484 - 536

Witnesses

II: Jonathan Brearley, CEO, Ofgem; Neil Kenward, Director of Strategy and Decarbonisation, Ofgem; Neil Lawrence, Director of Retail, Ofgem.

Examination of witnesses

Witnesses: Jonathan Brearley, Neil Lawrence and Neil Kenwood.

Q484 **Chair:** We welcome to our second panel Jonathan Brearley, the CEO of Ofgem, Neil Lawrence, the director of retail for Ofgem, and Neil Kenwood, the director of strategy and decarbonisation at Ofgem. Thank you and good afternoon to all of you. Mr Brearley, just to start with, could you give the Committee an update of the current situation? Are you concerned that there will be further energy companies going bust?

Jonathan Brearley: What I would like to do is just update you on the market conditions and some of the regulatory reforms we have made, and I will cover supply failures as part of that. I am afraid to say conditions have worsened in the global gas market with Russia's invasion of Ukraine. Gas prices are higher and highly volatile. At times they have reached over 10 times their normal level. I know this is a very distressing time for customers, but I do need to be clear with this Committee, with customers and with the Government about the likely price implications for October. Therefore, later today I will be writing to the Chancellor to give him our latest estimates of the price cap uplift. This is uncertain; we are only partway through the price cap window, but we are expecting a price cap in October in the region of £2,800.

When we look beyond that, our future scenarios are really managing between two extreme versions of events. One is where the price falls back down to where it was before—for example, if we did see peace in Ukraine—but another is where prices could go even further if we were to see, for example, a disruptive interruption of gas from Russia.

Reflecting on the gas crisis so far, as you have mentioned already, we commissioned and published an independent review to understand the drivers and causes of supplier failure. This report has highlighted something I have made clear to this Committee before: there are significant lessons to be learned from this crisis, and change is absolutely needed to the way we regulate the retail market. The price changes we have seen in the gas market are genuinely a once-in-a-generation event, not seen since the oil crisis in the 1970s. In any conceivable circumstances there would have been supplier failure. However, it is clear to me and it is clear to the current Ofgem board, looking over all of our institution's history, that, had, financial controls been in place sooner, we would have likely seen fewer suppliers exit the market. For that, on behalf of Ofgem and its board, I would like to apologise.

We have responded quickly to this extraordinary crisis, making big changes to the regime, alongside managing the implications of the gas crisis. We are in a very different place now, but there is a huge amount more to do. My commitment to this Committee and to the customers we serve is that we are fixing and we will fix this regime. We will build a



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retail sector that is competitive, resilient and fit for net zero, and we will do it at lowest cost to consumers.

There are three areas of reform we are focusing on: first of all, addressing that economic model that allowed low-capitalised companies to enter the market through ring-fencing customer credit balances and renewables; secondly, introducing top-down financial regulation to make sure that companies have the right governance, the right risk management and the right finances behind them; thirdly, adapting the price cap to allow it to adapt to the more volatile circumstances we find ourselves in.

If we are to take forward this new proactive role, there are different and new powers that we will need to take to move, as I would describe it, from a reactive regime to one that proactively supervises what is happening. I want to end where I started. I should add that no regime can protect against failure. Given where we are now, to answer your question, Chair, it is a risk that other companies will fail, given the range of scenarios that I have outlined for you.

The last thing I want to say is that I speak directly to customers on a very regular basis. I know that this news and the news of the price cap in April is highly distressing. Ofgem, NGOs and Government will need to work closely together to make sure we manage the implications for the price changes that are to come. I understand from our workings with Government that Ministers are prepared to do more.

Q485 Chair: Thank you. You say you are working with the energy companies to support them. What steps are you taking to try to prevent further failures in the energy market?

Jonathan Brearley: There are a series of things that we are trying to do. First and foremost is to make sure that we put the financial regulations in place that we need. We have laid out the proposals on customer credit balances. We have run stress tests with the companies, and we are in the process of discussing those results with those companies. What we have found through those stress tests is the important relationship between our pricing regulation and the company's finances. We have to make sure that pricing regulation is fit for purpose, which is why we announced the changes we announced to the price cap at the beginning of last week.

Q486 Chair: Some stakeholders have suggested to us that ring-fencing of consumer credits and renewable obligations will cost customers directly on their bill. Do you agree with that?

Jonathan Brearley: When you step back from this, ultimately what we are saying to customers in a number of ways is that they are going to need to hold more capital. If you ring-fence customer credit balances you have to hold that capital in a separate account. Now, to do that, it will ultimately cost customers, because there will need to be a capital charge



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that is paid. The argument and the debate that is out there in the industry—which, as you know, is vociferous on this point—is whether that cost of capital offsets the implications of the failures that would result if we left the regime in place.

Our view is that there certainly should be a large degree of ring-fencing, for two reasons. One is the direct cost of credit balances and the renewables levies that you have seen through this process. The second component is that that was the fuel for the engine of the business models that were vulnerable when we saw the gas crisis. If I may, I want to step back from it a bit and just describe how I see the regime and how I saw it evolving. There is a really important point from what we learned from Oxera.

The thing that struck me—and the change in perspective in Ofgem—is that there can be a debate about the level of the costs, but the costs were previously very different to the ones that we have seen. What Oxera taught me was that we had two problems. We had a set of vulnerable companies, but a set of vulnerable companies that would likely fail at the worst possible time, at the highest cost to customers. It is that systemic risk that we have to move away from and manage.

Q487 Chair: You said that you think the price cap will go up to £2,800 on average in October, but you are only halfway through the price cap window for that assessment. In theory, it could go even higher.

Jonathan Brearley: It is quite possible it goes higher, but, equally, it could go lower. The volatility in the gas market is huge. As I mentioned, if you think about how we plan for winter there is a very wide range of what may happen and a very wide range of implications for customers. The important point for me—and this is really important for all of us to understand—is that, if you are faced with that uncertainty, the best thing for customers is that companies hedge and hedge fully. When we design our pricing regulation and our financial regulation, we are asking companies to do that.

Chair: You are confident you can still maintain a safe level of competition in the market with all of that added regulatory burden.

Jonathan Brearley: The other thing that Oxera said to us is that we have to be mindful of this trade-off. What we do not want to do, as they describe, is swing the pendulum the other way, overregulate the sector, drive out any innovative entrant and prevent entrants coming into the market. I am confident we can do both. This is the way I described it to our board. We should not see this as a one-off trade-off that we make at the start. This ultimately has to be a framework that adapts over time. If you are concerned about the resilience of companies, you may need to do more on financial regulation, but equally you will have to keep an eye on new entrants and you may need to adapt over time to allow them to come back in.



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Q488 **Chair:** One of the consequences of the price going up even further is that many customers just will not be able to afford to pay their bills. What projections have you made around the levels of bad debt that you expect to see?

Jonathan Brearley: Neil may update you on where we are on bad debt today. I would just emphasise that with this scale of change it is very hard to project what that might be. Neil will talk about bad debt today.

Neil Lawrence: We do monitor bad debt levels with suppliers. Estimates are around £1.3 billion for this year. I would emphasise Jonathan's point: it is tremendously uncertain, because we have not seen utility bills as high as the levels that Jonathan has outlined. We are working very closely with companies to understand the forecast and the scenarios around that, so we can react with the regime and the price cap to adapt to that.

Q489 **Chair:** I am still slightly amazed that customers on prepayment meters, who are often customers with the least means to pay these high energy bills, can just have their energy cut off because of bad debt. Surely something should change for those customers pretty urgently.

Jonathan Brearley: I will ask Neil to come in on the rules we have, but we have rules around companies and how they treat prepayment customers. We have rules that say they have to offer emergency credit. We have rules that say companies need to be proactive when someone is self-disconnecting, as it is called, so when they choose to come off supply.

The problem we have—and this is a good example of the problem we have within the industry—is that there is only so much the industry can do. What we want to do in circumstances like that, and what the Government need to do, is to come in and intervene to support those customers.

Q490 **Tonia Antoniazzi:** Your recent proposal to update the price cap every three months from October will lead to price increases in the middle of winter. You have just spoken about the price cap uplift as it stands. Have you carried out any impact analysis to assess how this plan will affect vulnerable households during the coldest months? If so, what were the findings?

Jonathan Brearley: We have, and we have looked very closely at the trade-off. The thing I need to emphasise—and I talk to customers on a regular basis—is that the changes you make to the frequency of the price cap do not change the amount people pay for their energy overall. That needs to be paid for over the course of a year anyway. We did talk to customer groups. I have talked directly to customers about the trade-off between saving up a cliff-edge rise that we saw in April and a more regular update throughout the year.



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My view is that there are mixed views out there among customers. Many prepayment meter customers choose a prepayment meter so they have control over their bills. Now, the difficult truth for me—and I cannot tell you how frustrating this is when I talk to customers—is that Ofgem cannot change that cost. Ofgem cannot change the cost of energy to the people who are there. All we can do is make sure that the market is managed in an efficient and effective way.

On the quarterly update, in addition to that, we have to accept the realities of the market that are out there. As has been discussed in the previous session, we need to make sure we do not enter a regime that allows the sorts of failures that we saw towards the end of last year. To do that, the price cap needs to be more adaptable.

Q491 **Tonia Antoniazzi:** You have spoken about the volatility in the market, so are you expecting further changes to the price cap mechanism to be necessary as the situation evolves?

Jonathan Brearley: We have made changes that we think allow the price cap to adapt more to market circumstances that we see in front of us, but we are in a market that is also changing quickly to a net-zero world. I suspect as part of that we need to have a further conversation about pricing regulation and what that looks like.

Q492 **Tonia Antoniazzi:** If and when wholesale gas prices come down, will you be revisiting the 1.9% of supplier profit that is allowed in the price cap?

Jonathan Brearley: When you look at the margins that are allowed, the relationship between those margins and the capital that is held is something that we will need to look at. The good thing about a more frequent price cap is that, as prices come down, they will come down more quickly.

Q493 **Paul Howell:** Just before I go on to the question, I just want to come back to something Mr Lawrence said in terms of the debt position. You quoted a number of £1.4 billion.

Neil Lawrence: £1.3 billion, sorry.

Q494 **Paul Howell:** What is that comparable to as a norm, if you like?

Neil Lawrence: It is a huge increase on where we were previously. I can get the numbers for you in terms of the increase from last year, but we do track it and we do monitor it. It is a big risk to the supply market, so it is important we keep our eyes on that and that we reflect those costs of bad debt in the price cap mechanism moving forward.

Q495 **Paul Howell:** Just to give us a sense, is it more likely to be going from £1 million to £1.3 million, or from £300,000 to £1.3 million, as an order of magnitude? I am just trying to get a sense.

Neil Lawrence: It is an order of magnitude. It is a lot, lot bigger.

Paul Howell: So £300,000 to £1.3 million, rather than £1 million to £1.3



million.

Neil Lawrence: Yes.

Jonathan Brearley: We should send a note with a table.

Paul Howell: It would be interesting to get a context. One of the problems we have had through the whole pandemic is these big numbers that people just cannot relate to, so you need to have a benchmark from which to start.

Jonathan Brearley: It is worth saying that we are in the very early stages of this, so that number undoubtedly will go up.

Q496 **Paul Howell:** I want to have a little bit of a discussion on the market stabilisation charge. As part of that, you have proposed some changes. There has been quite a bit of kickback from the CAB, and you yourself said that you did not consider that we should prioritise the lowest possible prices for consumers at the present time over the need to enable efficient suppliers to finance their business. Do you want to elaborate on the background to that point, and pick up on some of the CAB points that I am sure you are aware of?

Jonathan Brearley: We have had feedback from many sources in lots of different ways. We should start by thinking about Ofgem's role here and what we are trying to do. We want to get through this crisis at the absolute least cost to consumers. That is our job, to make sure we have a retail market that functions at the least cost to customers. We have to look at every cost. We also have to look at the costs of supplier failure.

Regardless of the financial regulation that you have, if Ofgem was saying to companies, "You must hedge 100% for winter; you must buy forward 100% in winter", if you did see a dramatic price drop and those companies lost those customers, those companies would be insolvent. The thing you would normally do is only partially hedge; you would take a risk on your remaining 25% of customers. If we do not do this, we will see more supply failure and more cost to customers.

Remember, those costs fall on everybody, particularly on the most disengaged customers. That is predominantly the vulnerable customers. We have had to make some very tough decisions. It is really counterintuitive—you heard my predecessor talk earlier—for a regulator to think about how you have to attenuate competition, but if we do not do that the cost to customers will be much higher than simply letting the market go, and we will not leave customers in a stable place.

Q497 **Paul Howell:** To try to summarise that back at you, are you basically saying the actions you are prioritising is to minimise the cost to customers as opposed to the price they might see on the bills?

Jonathan Brearley: Yes, but that ultimately comes through their bill.



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Q498 **Paul Howell:** Have Ofgem's market compliance reviews found evidence of rule breaking? If so, what action are you looking at?

Jonathan Brearley: Could you just repeat the question? I did not quite catch that.

Paul Howell: What I am talking about is how suppliers are treating customers, including unfairly increasing people's direct debits and aggressively chasing customers for debt. Have your compliance reviews found evidence of rule breaking?

Neil Lawrence: We have just completed the first of the compliance reviews into direct debit. We are just reviewing the results now. We were alarmed by the issues reported to us through all of our monitoring earlier this year. That is why we planned to do that review, alongside a review of customer service and alongside a review of affordability, given the issues that we see in the market.

We will take action where we see that suppliers are not meeting the high standards that we want in the market and are not protecting consumers. It is a really invasive review. I just want to underline that it is not just looking at the amounts that individuals have been charged; it is looking at the underlying control frameworks that businesses have in place. It is a really invasive mechanism, and I will be reviewing the results in due course.

Jonathan Brearley: The short answer is that it is too early to tell. We are aware of the issues that were raised. They were raised to us by a number of sources. It is worth saying we look at service standard data, and the service standard data is not looking great at the moment. It has certainly taken a dip since the gas crisis started. Now, some of that is due to the volume of requests and inquiries that are coming to customers, but we need to find our way through that.

The direct debit issue itself is complex, because some customers are still on fixed tariffs from a year and a half or two years ago. The leap up to the new price cap level is big and is surprising for some customers. We have to find out whether that is fair and reasonable, and whether fair and reasonable assumptions have been made behind that. That is what Neil is working through now.

Q499 **Paul Howell:** The phrase you finished with, "in due course", is not one that is particularly well received. Can we have a bit more definition to the timeframe that you are thinking of there?

Neil Lawrence: Absolutely, I did not mean to give you that impression. Apologies for that.

Paul Howell: I am sure you were listening to the earlier session.

Neil Lawrence: It is one of our biggest priorities. We have the results. We are looking at them this week. It is absolutely a priority. Over the



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coming weeks we will be engaging with suppliers on those findings individually, and we will be initiating action if we see the need to do so. It is happening right now. I just want to make that really clear.

Q500 Paul Howell: I just want to push back a little bit on where we are here. It is reported that the Secretary of State wrote to Ofgem, asking it to take swift action to enforce competence. We have seen that the DWP Secretary of State has also written to you about a number of issues. Should you really need Secretaries of State to be writing to you in order to find out whether you are doing your job properly, or to encourage you to do it properly?

Jonathan Brearley: As a point of detail, we launched these reviews before the Secretary of State wrote to us. They were launched a week before the Secretary of State wrote. What he said to us was that he has had the same reports and we need to treat them seriously. On the DWP issue, yes, they highlighted it to us, and that is something that we are looking into.

I should say that the initiation of those reviews came from two sources. One is looking at our own standards data, and, secondly, we do have a close relationship with consumer groups. This is something they have been highlighting for some time. The peak of this was around the time the price cap increased, and therefore that is when direct debits began to change. We wanted to make sure we were on top of that. I have to say, to do this properly and robustly, it does take a number of weeks to make sure we understand the data and we get this right.

Paul Howell: Just as a final point, we always get concerned about things taking too long to get where they get to. In the first part of this session we were concerned about whether there was enough focus and delivery on things. What we want to be assured about is that you are absolutely on it as quickly as possible, as swiftly as possible and as intensely as possible.

Jonathan Brearley: This is a personal priority for me. Neil knows that. It is a personal priority for him to make sure that we do that. There is a vast amount we need to get through, and we do need to do it in a structured way. When it comes to enforcement action and when it comes to taking action against companies, you need a robust case to make sure that they change. We need to make sure that we have that. I should emphasise that we are talking a matter of weeks, not months and years.

Q501 Chair: The companies that you take enforcement action against is made public, is it not?

Jonathan Brearley: When the enforcement action is taken forward, yes.

Q502 Chair: Can I just be clear? If a company has disproportionately increased the direct debit, will the customer get the money back? Is that how it works?



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Neil Lawrence: We need to do the review properly. If indeed a company has treated our customer unfairly, we will be discussing that improvement plan with them and looking for them to rectify any customer issues that we see, but we need to get through the review first. We need to understand what has happened, rather than coming up with specifics.

Jonathan Brearley: The company will be repaying that money back to customers. They will need to rectify it, but if you are in an enforcement case you may argue that there is redress over and above that. Where there is redress over and above that, we try to do two things. First, if you can identify the group of customers that have been affected, some of it goes back to them. Secondly, we have a redress fund, which is targeted at vulnerable customers, where we in effect fund charitable groups to do things for vulnerable customers.

Q503 **Richard Fuller:** I was just surprised by the insouciance of Mr Lawrence's response. Many in my constituency wonder whether Ofgem is on the side of the consumers, or is soft peddling the companies because of this longstanding belief in promoting competition. Whose side are you on, Mr Lawrence?

Neil Lawrence: We are absolutely here for the consumers. That is our primary role. That is what I am here to do. We have implemented changes to the regime this year to try to make sure we look at the issues.

Q504 **Richard Fuller:** Are you being tough enough about this very fundamental point of using credit balances of consumers, money that they have paid, which is more than they have spent on energy? Do you think you are being tough enough and quick enough in getting redress for consumers?

Jonathan Brearley: There are two dimensions there. The first one is whether we are being tough enough. Yes. We have a record on enforcement. Only a few weeks ago, we fined a network company that was treating its vulnerable customers badly £15 million. Imminently we will be coming out with our assessment of Storm Arwen and making sure that, where vulnerable customers were let down, there will be redress. In terms of time, we are talking a number of weeks, and the reason for that is that we have to get through a detailed set of data the companies are submitting us, to make sure that we are robust.

Q505 **Richard Fuller:** Just to be clear, Mr Brearley, you have mentioned vulnerable customers. This is just any customer where their credit balance has been taken well in excess of what was required. Are you telling this Committee that you are on the side of consumers and, in the next couple of weeks, you will be coming back, requiring energy companies to repay those credit balances?

Jonathan Brearley: If we see that direct debits have been unfairly taken, we will be taking enforcement action against those companies for



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every customer. We will be expecting those companies to return that money to customers. Equally, we will be considering whether we need to go further than that and apply fines. The thing I need to emphasise is just that the complexity of the issue means it takes some time to work through.

Q506 Alan Brown: Focusing on vulnerable customers, you made a pledge that between 2020 and 2025 Ofgem would have a focus on vulnerable consumer protection, including identifying vulnerable customers and supporting those who are struggling to pay their bills. Since the crisis started, can you outline what action Ofgem has done to support vulnerable customers? Can you give specific examples that have led to good outcomes for those vulnerable customers?

Jonathan Brearley: In 2020, we brought in a licence condition that was very clear about the way companies should treat vulnerable customers. There are three things I would describe they need to do. First of all, they need to make sure that vulnerable customers have access to help and support. I have spent time in call centres with companies where I have watched them make sure that there is access for anybody who is in vulnerable circumstances to help and support, usually from other agencies that partner with companies.

Secondly, customers who are falling behind on their bills needs to be put on an affordable repayment plan. Thirdly, as I have mentioned, prepayment customers need to have access to emergency credit. I have genuinely sat and watched circumstances where that has made a material difference to customers. The issue is—and I accept this—that there is only a certain amount the regulator and the industry can do. The sorts of changes we saw in April and the sorts of changes we now expect in October mean that more is needed. We are in conversation with Government about that.

Q507 Alan Brown: Can you say how many customers you think were protected by these additional measures who otherwise would have been left struggling or have been disconnected?

Jonathan Brearley: I am really happy to come back to the Committee on that. The number is substantial. From memory, when we looked at this a while ago, it was approaching a million customers. I will come back with a paper that sets that out.

Q508 Alan Brown: If protecting vulnerable customers is so key, is it justified that those on pre-prepayment meters who are the most vulnerable actually pay higher standing charges? Why should they pay more to access energy?

Jonathan Brearley: The price cap is there to make sure that customers ultimately pay an efficient set of costs for their energy. It just costs a different amount to get energy to a prepayment customer versus a customer who is on standing credit or on direct debit.



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Q509 Alan Brown: There are many policies that redistribute and protect vulnerable customers as carried by other consumers, so why should vulnerable customers pay more? Even if it costs the companies a bit more, which I would argue is debatable, why should the vulnerable customers pay a premium?

Jonathan Brearley: There may well be a case for redistribution. It is something that we would need to discuss with Government, because it changes the role.

Q510 Alan Brown: Have you discussed this with Government and looked at this? Many charities have complained and raised this as a key issue.

Jonathan Brearley: Can I come back to two things? We discuss all sorts of issues with Government around vulnerability, including the difficulties of prepayment meters. I would argue that it goes beyond the cost of the standing charge, and into the fact that we are seeing and going to see increasing self-disconnection. That is something that troubles me hugely.

There is one thing I want to mention on the standing charge, because you are right that consumer groups have come to Ofgem and said the growth in standing charge is particularly difficult at this time. We are going to look again at the way the standing charge is made up, in particular the way the SoLR levy—the levy that comes from the failed companies—is distributed. We tried to make a compromise. We have half of it volumetric, half of it through the standing charge, but we want to look at that again. If we think it needs to be changed—and we have to do the work—it will be changed for this winter.

Q511 Alan Brown: You mentioned that you think the cap might rise to £2,800. This time last year the cap was £1,138, so potentially in October if nothing happens it is going to be two and a half times what it was this time last year. Energy companies have already raised this with the Committee. They estimate that such increases in October could see 40% of households classed as fuel poor. What analysis have you done and what percentage of fuel-poor households do you think £2,800 would trigger?

Jonathan Brearley: I will hand over to my colleague Neil in a second. It is worth saying we have roughly 6.5 million customers in fuel poverty as a result of what happened in April. We do see that number going up significantly. We have done some early estimates. It is worth emphasising that these numbers are all rough, so they may still change.

Neil Lawrence: We have seen a range of estimates, because we do not just rely on our central Government estimate. We have estimates from NEA and the Alliance for Full Employment where they are estimating far higher numbers. We recognise the situation is unprecedented. It is driven by those high wholesale gas prices. We are working really closely with suppliers and those charities and agencies to try to find a way we can best support vulnerable customers moving forward. Ultimately, if we work closely with Government, we will find solutions through that.



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I would add one other point, if I may, around the support measures. We are supporting on the energy bill rebate scheme with Government. We have a role on that to help get it implemented at speed, which will help consumers this winter.

Jonathan Brearley: It is worth saying, just to come back to your question, that at those figures you are likely to be talking double-digit millions of customers.

Q512 **Alan Brown:** Obviously you are doing work, and I know you cannot give an absolute figure because such an absolute figure does not exist, but what upper limit are we talking about? What range are we are talking about?

Jonathan Brearley: For the price cap?

Alan Brown: If the price cap comes in at £2,800, how many fuel-poor households would there be?

Jonathan Brearley: As I say, it could come to double digits. That is the best we have right now. You have to remember the ranges around that £2,800 are still quite wide in and of themselves.

Q513 **Alan Brown:** I know you do not want to be held to a figure, but we have to write a report. We have to make recommendations to Government. We are saying, "If Government do not do X, this could be the outcome". Are we potentially talking 15 million households?

Jonathan Brearley: The best number we have, if you accept all the caveats that I am not even going to run through, is around 12 million households.

One of the most helpful but most difficult parts of my job is talking to customers in fuel poverty, which I do on a regular basis. We understand this is going to have a huge impact for households.

Q514 **Alan Brown:** What trends have been picked up so far on the number of people self-disconnecting? We keep hearing the phrase "self-disconnection", which basically means they cannot afford to access energy at all. What increases have we seen to date? If the projection of £2,800 is correct, how many people do we think will be unable to access energy in their homes?

Neil Lawrence: We monitor self-disconnection, and we require the suppliers to monitor it as well and take action to contact customers proactively, to put them on those affordable repayment plans and to look at the issues. We will give you a full breakdown after the Committee. I will write to you and give you some of the numbers in terms of what we are seeing. I would emphasise that the situation is moving very quickly. We just need to bear that in mind in terms of what we are seeing now in the market.



Jonathan Brearley: Coming back to the impacts of the £2,800, we have not carried out all of the impact assessment of what that might be, but it is very hard to predict on things like self-disconnection. We are going to see a strategic change of the way customers manage this. We are already seeing customers self-disconnecting. I talk to customers who disconnect their gas and just use their electricity, so this is going to be a big and difficult problem for the country to address. That is why we not only need Ofgem, the industry and the NGOs to do their job, but we need Government to step in.

Q515 **Alan Brown:** When people self-disconnect, debt accrues through standing charges and the like while they are disconnected. They then need to clear this debt before a supply can be accessed. What are you doing to alleviate that burden for these vulnerable people as well?

Jonathan Brearley: Under the rules, customers now have access to different forms of reserve credit. If they get into arrears, they are able to negotiate with their supplier a repayment plan that offsets some of that accrued standing charge. As I mentioned before, we want to look again at the standing charge. Given what consumer groups are telling us, it is something we should have a further look at, particularly the SoLR levy and how that is applied.

Q516 **Alan Brown:** It is a harsh reality, with the additional support packages and all the rest of it that the energy companies are trying to manage, that they cannot do that. Do you agree that Government action of some sort is needed? Otherwise we are going to see the figures you mentioned about how many people are classed as fuel poor.

Jonathan Brearley: It is really clear, given the implications that we are seeing, that the industry can play its part. Ofgem will absolutely play its part. Responding to your question, we are on the side of customers and we will do everything we can, but broadly this is something that only Government can address.

Q517 **Alan Brown:** Just to change tack slightly and return to the financial resilience in the retail market, Ofgem had previously analysed Bulb and come up with a conclusion that it was a well-run supplier. Can you guarantee that the new financial controls you are considering will ensure that suppliers are sufficiently capitalised and hedged compared to before?

Jonathan Brearley: The regime we are putting in place, with stress testing, followed by transition plans, followed by constant monitoring of the market, will make sure that companies are well capitalised. I need to emphasise that is a journey, just like it was with the banks, from where they are now to where we think they need to be. That is going to take time.

What it will not do is create a regime where no one fails. Coming back to a question that was raised earlier, we want competition in this market, we want new entrants, and we want to make sure that incumbents, quite frankly, feel threatened by anybody else who might enter the market and



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take their customers. There will always be a degree of risk in the market, but we hope that will be in a very different place.

- Q518 **Alan Brown:** To ensure entrants behave properly and we have a proper regime, we have heard about Avro, which gave £1.5 million of loans to company directors. It paid nearly £5 million to a marketing company owned by the chief exec. Do you need new investigative powers or step-in rights to analyse the behaviour of these companies in order to make sure that does not happen again?

Jonathan Brearley: Absolutely. I was asked the question in the last Committee about executives and shareholders, and what happens to them when they have taken the money out and the company has gone bust. I would like to see Ofgem have the capacity to offset any costs of a SoLR levy against those shareholders. I would like to see Ofgem have the ability to offset the SoLR levy against any assets that a residual company has. I would like step-in rights for Ofgem to make sure that, if any company behaves badly and acts against the interest of its customers, we are able to step in and stop that, just as the Financial Conduct Authority has for its customers.

- Q519 **Alan Brown:** Have Government showed any willingness to provide these powers?

Jonathan Brearley: We are in ongoing conversations with the Government about many things, including this.

Richard Fuller: Be careful what you wish for.

- Q520 **Alan Brown:** Yes, it is something that we would all want to see. Changing topic, if we look at the wider market in terms of electricity generation, it has been reported in the *Financial Times* that renewable projects are facing up to a 10-year wait to connect to the electricity grid. Is that true? Is that another failure of Ofgem's responsibilities? Is Ofgem out of its depth, or is it a lack of capacity?

Jonathan Brearley: On the network side, we have done everything we need to make sure the network companies are well financed and are putting in place the network infrastructure they need to. We are working with those companies to make sure that they meet their obligations to water generators and to water suppliers. There has been a huge increase in ambition around making sure we get renewables projects and make the transition to net zero, which I totally support. That is ultimately the way we get out of the economic component of this crisis. We are again looking at our regulatory processes and at making sure that we approve projects on time and quickly. We are accompanying that by a conversation we are having today with companies—

- Q521 **Alan Brown:** Do you accept that eight to 10-year wait to connect to the electricity grid?



Jonathan Brearley: There are ways to connect to the electricity grid. My understanding is that the principal issue, once you have sorted out the financing of the project, is the permissions that they need to get through to get that project, both planning and environmental assessments. Quite frankly, in this area Ofgem is doing its job. It is making sure that the money is available. We will be holding the network companies to account, but we need to work with the planning agencies and with Government to make sure the whole package will speed things up.

Q522 **Alan Brown:** In their energy security strategy, the Government have just revised the offshore wind target up again to 50 gigawatts. That is effectively an increase of 6% or 7% on what the target was a couple of years ago. Does that not mean the network upgrades need to be reviewed? Are you confident that sufficient work has been done to facilitate the grid upgrades that are required to meet what is now a much, much higher rate of deployment in 2030?

Jonathan Brearley: We, with BEIS, are going to be publishing a network strategy soon. *[Interruption.]* That thunder is not a portent of the strategy. It is a good strategy, I promise. That network strategy will lay out how we are going to speed up the network developments to make sure that happens. We have looked at our regulatory process, and we are going to our board in June to put some proposals that will speed up the approvals of those projects.

We need two other things. We need the companies to keep their commitments, and we need the planning and the environmental regimes to move quickly enough to allow that to happen. If all of that happens, I am confident we can meet those goals.

Q523 **Alan Brown:** What are the timescales for this? If green and renewable energy is the cheapest form of power generation, we need this deployment as soon as possible.

Jonathan Brearley: We will be coming forward with that strategy before summer, subject to Government. We also have in train something that is critical when you think about the evolution of network structure. Rather than companies coming to us project by project, we are building a holistic plan across the country, onshore and offshore, of the networks that we need. The system operator is coming forward with something called the holistic network design, and a strategic plan after that, that will lay all of that out. Once we have that plan, the regulator's job, rather than focusing on the economic case of, "Do we need it?" simply becomes, "Is it being done at an affordable rate for customers?" That will significantly speed up the process.

Q524 **Alan Brown:** Why is it taking so long to have this holistic look? We have known about legally binding commitments on net zero for a while now.

Jonathan Brearley: This Committee knows that we campaigned hard for a future independent system operator that was able to do this. We had to change the governance to make sure that was done independently,



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because clearly, being part of the National Grid Group, they will have a conflict of interest. That is why we have done this now, as we have transitioned to a different organisation.

Q525 Alan Brown: I have long mentioned the fact that Scotland pays the highest transmission grid charges in the whole of Europe. Ofgem has agreed a taskforce to review this. What is the status of that taskforce and when is this work going to be completed?

Neil Kenwood: This is an enduring issue. Traditionally we have set out the transmission charges to try to deliver the most efficient system overall. That means higher charges in those areas furthest from the areas of greatest demand. That does mean there have been higher transmission charges in Scotland, as you know. As you have rightly said, we are also convening a taskforce so that we can review how this works, check it is consistent, check it is the right solution for consumers, but also deliver the net-zero transition we are all committed to delivering. That taskforce is going to look seriously at the full range of issues.

Q526 Alan Brown: When is that taskforce going to be populated and when is it going to first meet?

Neil Kenwood: I do not know the dates.

Jonathan Brearley: We will come back to you on the dates. When you think about the charging regime, the perspective of the regulator has always been, "Well, we should reflect costs". From the many debates you have had with Ofgem over the years, you know that generation in Scotland pays more because a lot of the demand is down south. We are now in a world, which you have put to us, where there are only limited places you can build offshore wind; there are only limited places you can build renewables projects, so the economics may not make sense any more. We want to look at how we redesign the regime to make sure we get the best outcome for customers.

Q527 Charlotte Nichols: Sorry, I am just struck more than anything else by the news of how much things are going to be going up, given the volume of constituency correspondence that I have already had in my mailbag, based on what it is at the moment. In terms of going forward, however, my key concern is around the enforcement, because at the end of the day some of the companies that we are seeing operating in the market at the moment do not seem to have confidence that Ofgem is going to act on some of their practices. We have repeatedly heard concerns about Ofgem's performance on enforcement and compliance. What action are you taking to improve your enforcement and compliance activity to ensure suppliers abide by the rules and take your authority seriously?

Jonathan Brearley: I hope the Committee appreciates that we have been transparent about the issues we have seen in the market and our role in those issues. I read in detail the Citizens Advice report on this. We accept that we need to be firmer around the financial resilience of companies and do more around the way that they are governed. What I



do not accept is Ofgem's record on enforcement. If I step back from this and look at two things, the number of cases and the amount of money that we have got back through that redress fund or through fines, it is substantially higher than it was five to 10 years ago.

Just to give you an idea of numbers—and they vary every year—in 2013 it was around £30 million that was recovered on behalf of consumers. In 2019 it was £45 million. In 2020 it was £74 million. In 2021 it was huge; it was £173 million. I do not want to overplay the 2021 figure, because that was one particular case with National Grid, but I think our record on enforcement is stronger rather than weaker.

We did look at the figures they released around the enforcement resources, but we now do enforcement differently. The enforcement team's role is more of a co-ordination and organisation role, and there is much stronger involvement from the regulatory policy teams behind that. That does not mean we cannot step it up. We absolutely need to. Responding to the question around supplier performance on things like direct debits and service standards, we have to, to make sure that we can properly enforce the financial regulations that we are bringing in. That team will grow. We will focus on this more, but, as I say, I do not think the picture is quite as portrayed in that report.

Q528 Charlotte Nichols: Customers of Neo, a firm run by Oliver Friedrich, who has a history of working at numerous failed energy suppliers, are complaining of inaccurate bills and never being able to contact the firm. Why are companies like this still being allowed to operate in the market in this way, if, as you say, compliance and enforcement is improving?

Neil Lawrence: To add to what Jonathan said, we routinely monitor all suppliers in the market on a range of customer service metrics. When we take compliance action, it is not always in the public domain. You would not see some of the interactions we have with suppliers on a regular basis. That is me and my team talking about the issues that are reported and trying to bring firms back into compliance before we move into enforcement. I would just add that point.

In terms of our ongoing checks, we have introduced a range of market compliance reviews. We wrote to suppliers again yesterday around a further set of reviews into issues. As Jonathan has alluded to, where we see systemic problems, we will move to enforcement very, very quickly as we change the regime and change the culture regarding our interactions with suppliers. It has to be firm and fair. It has to be evidence-based, so I cannot make snap judgments, but we are absolutely on it and it is one of my top priorities.

Jonathan Brearley: Coming back to resources, we expect much larger resources for compliance enforcement in the future.

Q529 Charlotte Nichols: Finally, we have spoken a little bit about self-disconnection already today, but National Energy Action has raised



concerns that there is very little information in the public domain about the rate of disconnection, as Ofgem gave a derogation during the pandemic to suppliers where they did not need to be compiling that information anymore. Has Ofgem now started to enforce the licence conditions that were brought in two years ago around that?

Neil Lawrence: Across all of these measures we are working very, very closely with suppliers and the agencies to ensure that we absolutely do have a monitoring of all the licencing conditions. All of the reviews that we are doing are looking to drive at performance standards in the industry. We have to work very closely with Government and the suppliers, looking forward to this winter, to make sure that we are absolutely driving compliance on the really important things that matter to customers, of which that is one.

Jonathan Brearley: The derogation was given in Covid where we did try to focus companies on a limited number of things because of their own capacity at the time.

Q530 **Andy McDonald:** On the redress fund, there are many millions in there. There is a fortune sitting there. As I understand it, that cannot be accessed by advice and debt agencies to directly impact upon. Is that the case? If it is, would you like to see some change so that the money you have secured from rogues and bandits can go out to help people who have been ripped off and those who are suffering fuel poverty?

Jonathan Brearley: I will check whether there is any specific limit in there, but I do not think that is the case. The money is given to charities and NGOs precisely to support customers in fuel poverty. I will check if there is something in there about particular agencies, but during the pandemic a lot of that was for people to get access to emergency credit. You used to get cards where you would be able to top up your energy bills. The people who cannot access it at the moment are local councils and local authorities, but I am really happy to look at that if that is an issue.

Q531 **Richard Fuller:** Mr Lawrence, you said earlier to the Committee that £1.3 billion is the latest estimate of bad debt. How is bad debt defined? Is that where a customer has missed one cycle of a bill payment? Is it three months of a bill payment?

Neil Lawrence: There is a formula. I will come back to you with the exact specifics, but when we are talking about bad debt we mean debt that is accrued and cannot be recovered. I need to get back to you on the metric around that, because each of the suppliers has a slightly different accounting treatment around how it formulates that. We are collecting the information for suppliers, so it is not a single answer. I will come back to you with some more detail.

Q532 **Richard Fuller:** As this is now a national issue, from a regulatory point of view having different rules for different companies is not particularly helpful, is it?



Neil Lawrence: No, it is up to them. It is their accounting treatment.

Q533 **Richard Fuller:** You said it was £1.3 billion. Is it right that the total household expenditure on energy in this country is about £20 billion, so we are currently looking at a bad debt level of 6% to 7% of households?

Jonathan Brearley: I suggest we come back to you.

Neil Lawrence: We can come back to you.

Q534 **Richard Fuller:** Mr Brearley said that the price cap expectation would rise from £1,971 to approximately £2,800. Can you furnish the Committee as soon as possible with your expectation of bad debt if that were to take place?

Jonathan Brearley: We would be happy to do that.

Q535 **Richard Fuller:** Mr Brearley, you talked a little bit about the green transition in answer to Mr Brown's questions. I want to come back to you being on the side of consumers. A number of consumers may fear, as energy prices have risen up so high, that when the markets change and they are able to come down, they may not come down as much, because you will see this as an opportunity to whack in some more green levies to assist with that transition. In your 2020 plan you said that it will cost more in the short term. Can you give this Committee any assurance that you will not use this opportunity of increased prices to increase green levies over the next few years?

Jonathan Brearley: We are committed to the lowest possible transition to net zero, and we will stick with that commitment. I would just point out one thing. Even if prices fall back to the levels they were pre-September last year, and even if we go back to a market where gas—at least as far as we can see—remains cheap, there has been a huge economic shock that we are going to have to look at when we think about the economics of the system as a whole. Those economics have changed.

When I looked at the generation prices—the cost of gas versus the cost of offshore wind and other low-carbon technologies—they were already cheaper than conventional thermal generation. Even if prices go back to where they were before the gas crisis, the level of risk we now have in that market means that we should be expanding our ability to deliver renewables. That should not be done at the expense of customers. It may well save customers money.

Q536 **Richard Fuller:** It may in the long term, but even your own statement in 2020 says that costs will go up in the short term. We are going through a period where energy prices are going up for households because of global factors. There is a scenario where those may come down quite sharply, but they may not. In response to my specific question, can you give an assurance that you will not use that as an opportunity to put in additional green levies to prioritise this view you have that the world has changed?



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Jonathan Brearley: First, green levies are ultimately decided by Government, so they are the ones who charge for the renewables schemes that we have. Secondly, the economics look different since I wrote that in 2020. We want to look at what that might mean. It may well be that there are synergies here rather than trade-offs.

Richard Fuller: I am not sure I got an answer for that.

Jonathan Brearley: I will give you a yes, but it is not really our call. It is for Government.

Chair: Thank you to all three of you. Clearly we want you all to act as quickly as possible, with the urgency that perhaps Ofgem has not acted with in the past, to deal with the issues we have been talking about today, especially on helping vulnerable customers, dealing with bad debt and making sure that these price rises are managed in the best way possible for customers. We will probably ask to see you again before the summer on that basis. Thank you to all three of you.