

# 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 537 - 626

### Witnesses

III: Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy; Daniel Osgood, Director, Energy Security, Markets and Analysis, Department for Business, Energy and Industrial Strategy.

## Examination of witnesses

Witnesses: Kwasi Kwarteng MP and Daniel Osgood.

Q537 **Chair:** Welcome, Secretary of State and Daniel Osgood, director for energy security, markets and analysis at BEIS. Thank you for joining us today. Secretary of State, we have just heard from Ofgem that the price cap will go up to an average of £2,800 a year this October. When will you announce further help for billpayers?

**Kwasi Kwarteng:** You will know, Mr Jones, that this is a matter for the Chancellor. You will know that both the Prime Minister and the Chancellor have said that there will be further announcements in respect of giving assistance to people in a very difficult time.

Q538 **Chair:** What would you ask the Chancellor for, Secretary of State? What would you like to see to help billpayers?

**Kwasi Kwarteng:** He has already done a lot of the things that we would want to see. If you look at the £9.1 billion that he gave in February, that was significant. That comprised the £150 off council tax bills between bands A and D. There was a £200 upfront payment to help with bills, and there was also the spring statement where there was a further £5 billion that was essentially given to hard-pressed consumers.

Q539 **Chair:** It is about £350 on average. Bills will have gone up by £1,523 by the end of this year, and the number of households in fuel poverty will have nearly doubled to 12 million.

**Kwasi Kwarteng:** One of the things I did not mention was the fact that the warm home discount was extended from 2 million people to 3 million. The amount they have been given is £140 and is being uplifted to £150, so there is some measure of support. As I said, the Prime Minister and Chancellor have also suggested that there will be more support in the coming months.

Q540 **Chair:** There is a big gap between all of these numbers, Secretary of State. If the warm home discount is going to 3 million homes but we are expecting 12 million homes to be in fuel poverty, surely the warm home discount should be going to 12 million homes, not 3 million.

**Kwasi Kwarteng:** As I have said, there will be further comments. What we see now is not the full picture. Both the Prime Minister and the Chancellor have said there is more to do, and we have to just wait and see what is forthcoming.

Q541 **Chair:** Do you think bill payers are happy with that answer: "Just wait and see"?

**Kwasi Kwarteng:** No. It is a difficult time. We all know that people are under huge stress. We also know that the cost of living is a very real



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issue, and nobody is suggesting that the Government can pay the entirety of the energy bill. We are committed to giving support, and that is what we are doing.

Q542 **Chair:** In October last year, I asked you whether your Department was looking at the prospect of a windfall tax, and you said it was something the Department was looking at. It was reported last night that the Chancellor has only just started looking at this. Why has it taken so long?

**Kwasi Kwarteng:** As I said, I think, at the time—and maybe I did not make this clear—matters of tax are matters for the Treasury.

Q543 **Chair:** Why has it taken so long? That is my question.

**Kwasi Kwarteng:** You or your counterpart would have to ask that to Chancellor of the Exchequer. I have no control over tax levers as Business Secretary.

Q544 **Chair:** It is all the Chancellor's fault.

**Kwasi Kwarteng:** It is not the Chancellor's fault. The Chancellor has given unprecedented support through Covid, which people forget. He has given a huge amount of support through this current cost of living crisis, and he has committed to doing more in the near future.

Q545 **Chair:** Do you support a windfall tax?

**Kwasi Kwarteng:** I have been very clear about a windfall tax. It does not support investment, and it is not necessarily the right thing, but, as I always say, that is up to the Chancellor. He sees the economy across the piece. He is responsible for fiscal policy. He is instinctively against windfall taxes, but, if he feels that these extraordinary times require extraordinary measures, that is up to him. His judgment has been very good throughout the Covid period, as I have said, as has his willingness to support very vulnerable consumers in this cost of living difficulty.

Q546 **Chair:** If you do not support a windfall tax but, I think, agree more help should be given to vulnerable customers, how should we pay for it—national debt or more tax rises?

**Kwasi Kwarteng:** No. I have never been a fan of national debt or tax rises.

Q547 **Chair:** You must be pretty uncomfortable at the moment then.

**Kwasi Kwarteng:** You say that, but I have been in the House 12 years now. We had a very high national deficit and debt in 2010, and we have done a very good job in reducing debt. Again, as I said, I am not for tax rises.

Q548 **Chair:** I do not think that is true. I think, actually, debt and deficit have gone up significantly since 2010.



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**Kwasi Kwarteng:** The debt has gone up. The deficit has gone down. The debt, as a proportion of GDP, I do not think has quite gone up as much as—

Q549 **Chair:** I am just keen to understand if you agree with me and my question that we should support bill payers. I do not understand how you think we should pay for it. You say you are against tax rises, debt and the windfall tax. Where is the money coming from?

**Kwasi Kwarteng:** Classically, Mr Jones, if we grow the economy, which is what I want to do, then we can get more receipts, and that is the time-honoured way in which we can help people. Actually, one of the things that we have seen, contrary to a lot of predictions, is a degree of economic growth. That is in question now because we are coming up with the headwinds of cost and supply chain pressures, but we have seen growth in the last year. The Chancellor should be commended for that.

Q550 **Chair:** The projections from the Bank of England are that the economy is going to shrink. We are in a recessionary period, not a period of growth.

**Kwasi Kwarteng:** My understanding of the Bank of England's forecast is that we are in a period where the rate of growth will slow, but that does not mean we are going to go into a recession. I do not think it has predicted that.

Q551 **Chair:** We are not going to grow. You do not want to raise taxes. You do not want to increase national debt. You do not want a windfall tax. I am still at a loss. Where is the money coming from to help bill payers?

**Kwasi Kwarteng:** As I said, we should focus on growing the economy, and that is what the Prime Minister and the Chancellor are resolutely focused on. I have a huge range of projects, as you know. You have asked me about them many times in this Committee. If we look at the investment that is coming into this country, things like Nissan, giga factories like Britishvolt and other offshore wind manufacturing, there is a considerable amount of investment. There is a strong growth story there.

Q552 **Chair:** That will be too late, will it not, for the 12 million households in fuel poverty by the end of the year?

**Kwasi Kwarteng:** I do not think it will be. It is interesting to see MPs representing lots of constituencies around the UK, but they will know that investment has picked up and that there is inward investment. We were told that Nissan would leave Sunderland as a consequence of Brexit. That did not happen. It actually doubled down and put £1 billion in last year. Those were jobs that were secured.

Q553 **Chair:** In October, when prices go up to £2,800, the British people, the 12 million households in fuel poverty, will think, "Don't worry. The economy is growing. Everything is fine".

**Kwasi Kwarteng:** No. I do not know what they will think. You do not know what they will think either, but I think they can see that the



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Government are committed not only to growing the economy but to trying to protect the most vulnerable from what are, globally, unprecedentedly high prices.

Q554 **Chair:** My view, and I am sure you will disagree, is that the public will see the Government not doing anything to help them with their energy bills.

**Kwasi Kwarteng:** You and I have different views on lots of things, Mr Jones.

Q555 **Chair:** I am sure we do. My next question is around regulatory failings in the energy market. A huge number of energy companies have gone bust. There has been an Oxera report into regulation of the market. We heard from the former CEO of Ofgem that there was, in the body politic, a direction that it should be competition over regulatory supervision. This has resulted in exposure of billions of pounds to taxpayers. Do you think the Government's approach to a competition first policy in the energy market has failed?

**Kwasi Kwarteng:** No, I do not think it has. It has actually given rise to a lot of innovation in this market. You will remember 10 years ago that the charge about the energy suppliers was that it was an oligopoly. There were too few companies that were, essentially, charging "rip-off prices". That was the phrase that was used. With the price cap it became a lot more competitive. We opened up the door to competition. There were lots of companies that came in and drove down costs, and it took out a lot of costs from the existing oligopolists, as we used to call them. British Gas and others were forced to become much more competitive, so it is not fair to say that the model of competition has failed.

Clearly, it became very challenging when you had a price cap that was set at prices that were very low compared to the last quarter of last year, and many of those companies that you have mentioned—I think there were 28 of them that failed—had not hedged their positions. When you have a price cap set at roughly 62p a therm and you have wholesale prices that went from, as I recall, 50p a therm to, at the end of last quarter, 232p a therm, those companies that had not hedged their positions were exposed and failed.

On that, I would say that it was regrettable that as many companies failed as they did, but Ofgem, and I pay tribute to it in this regard, did have the supplier of last resort process, which, actually, bore up very well. It was a process by which, put simply, the existing companies could buy up or sweep up the failed companies, and that process occurred without a glitch. It was a very successful process, and they deserve credit for that.

Q556 **Chair:** The evidence we have received is that the market had companies in it that were using customers' direct debits as capital to grow their businesses, that had shareholders without any personal exposure and



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company directors who were not fit and proper people with the relevant skills, and that took risky approaches to hedging so that, in the end, they were exposed and unable to survive. Those companies had inadequate capitalisation and the regulator did not seem to know that this was an issue in many of those companies. It looks, to me, to be a systemic failure of regulation in a market that provides essential utilities to people across this country. That looks like failure to me. You do not agree with that.

**Kwasi Kwarteng:** No. There were some things that did not work well. There could have been more financial stringency. I made the point, as did many, about the ROC issue, where you essentially have 15 months free capital that was not ring-fenced, and similarly the consumer credits that could be used willy-nilly. I thought that was bad practice. I spoke to Ofgem about this, and, in the consequence of what happened last winter, it is consulting and looking to make the market more stringent to enter.

Q557 **Chair:** One of the issues around energy consumption is the fact that we should try to reduce the demand for energy as opposed to solving the supply problems, but we have still not had a replacement to the green homes grant to help people insulate their homes properly across the country. Is that coming or is that no longer the policy for this Government?

**Kwasi Kwarteng:** You will know that, in the CSR, about £6 billion is committed to insulation and energy improvement matters. You will also know that we have a heat and buildings strategy, which you pressed for us to publish, and it was published. It has lots of measures regarding public sector buildings, decarbonisation, social housing decarbonisation and the home upgrade grant. There are lots of schemes that are doing precisely the thing you ask for.

Q558 **Chair:** I would rather homes insulated than more strategies. I agree with you—

**Kwasi Kwarteng:** No, but the strategies are a means to an end. They are not an end in itself, but they outline very clearly how we are going to allocate the money.

Q559 **Chair:** I agree with you that the public sector work is going well, but we need to see homeowners and tenants across the country being able to make their homes more energy efficient so their consumption of heating is reduced. The only thing that is available to the majority of people is the gas boiler replacement voucher, which you cannot even apply for until you have done all of your insulation work in line with your energy performance certificate. That is just not going to be adequate, is it?

**Kwasi Kwarteng:** I am glad that you are good enough to say the public sector buildings decarbonisation is going well. There is social housing, which is a key element to this. On the green homes grant that you referred to, the local authority delivery element worked very well, so it was not the bleak picture that you suggest, but I agree. We should do



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more. We could do more to help people insulate their homes. I agree with that.

Q560 **Chair:** You agree with my point that the majority of homes in our country are currently not given any support apart from the gas boiler replacement voucher.

**Kwasi Kwarteng:** They are given support in other ways, but, in terms of insulation and the green homes grant, we need to have another iteration of something that helps.

Q561 **Chair:** Agreed. When is that coming?

**Kwasi Kwarteng:** We are working on it imminently. We are working on it presently, actually. The results should be out imminently, I hope.

Q562 **Chair:** Before the summer?

**Kwasi Kwarteng:** No, not before the summer.

**Chair:** How imminent is imminent?

**Kwasi Kwarteng:** Not before the summer.

**Chair:** So in due course.

**Kwasi Kwarteng:** Yes.

**Chair:** I enjoy ministerial speak endlessly, Secretary of State. Thank you.

**Kwasi Kwarteng:** Good.

Q563 **Richard Fuller:** Secretary of State, I would like to ask you some questions about Ofgem's powers to investigate companies and to hold some of those executives to account. We have heard in earlier evidence about customer credit balances being used to support growth and that the Department suggested to the board of Ofgem that it should take action, and it did. It took a principle, but it did not bother investigating, so it seems, whether, on the ground, each of the companies was using those credit balances. We also heard in testimony that the chief executive of one of the new entrants whose business grew to be £300 million selected his dad to be the chief financial officer.

**Kwasi Kwarteng:** Avro Energy.

**Richard Fuller:** Yes. Many people would ask, "Why was Ofgem not regulating there?" Often, once the horse has bolted, good regulators come in with a set of recommendations of what they should have, which it did not have at the time. What is your view about giving Ofgem additional powers to seek redress?

**Kwasi Kwarteng:** I am always sceptical about giving quangos or arm's-length bodies more powers. It should have used its existing powers. It could have been more rigorous in looking to see whether these people were fit and proper. It is doing good work in terms of ring-fencing



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customers' credit balances, because one of the big outstanding issues was the fact that the company operators could use customer credit. There was no oversight as to how they used customer credit balances. That was a real failure of governance.

Q564 **Richard Fuller:** In evidence, they said that the board of Ofgem accepted that new entrants might make losses, that not all would be profitable and that some would fail. They got the nudge from your Department that not using customer credit balances to secure growth was an important issue.

**Kwasi Kwarteng:** That is right.

**Richard Fuller:** They then did not bother to check all those companies such as Avro Energy to see if they were doing it right. That is not a regulatory requirement. That is just Ofgem having not done its job, is it not?

**Kwasi Kwarteng:** That is right. That is why I do not think they should be given more powers. I think they should have done their job more thoroughly under their existing powers.

Q565 **Richard Fuller:** What is your view about the role of the Insolvency Service? We are currently relying on administrators and not on the Insolvency Service. The Insolvency Service has a little more teeth, perhaps, on director misconduct. What is your view about whether we should be looking at a greater role for the Insolvency Service in these instances of corporate failure?

**Kwasi Kwarteng:** The SoLR process, the supplier of last resort, works because it is actually quite nimble. Once the companies have failed, they essentially go through the supplier of last resort process and they can be swept up, i.e. bought by other companies, fairly quickly. I have seen the process. As Mr Jones said, 28 companies failed, and they were all snapped up. If you were to involve the Insolvency Service, you would add much more friction to that whole process and it would not actually work for customers. That is my view.

Q566 **Chair:** I am interested in the Department's oversight of Ofgem. If you were concerned they were not doing their job properly, why did you not do anything about it?

**Kwasi Kwarteng:** This is an endless issue between Government and arm's-length bodies. They are called arm's-length bodies for a reason. They are independent; they are professionals. You have heard from both Jonathan Brearley and his predecessor, Dermot Nolan. That is something we can raise with them. I do not, as Secretary of State, have the power to dictate to them how to do their job. If I did, then there would be no point in having them as a regulator. We would do everything through BEIS.

Q567 **Chair:** That is a problem, is it not? If an independent regulator is not performing and the relevant Secretary of State cannot intervene to deal



with its performance problems, who can?

**Kwasi Kwarteng:** It is a governance issue intrinsic to our system where we have independent regulators. It is the same across all the sectors I deal with, nuclear energy, the Pubs Code Adjudicator and the Groceries Code Adjudicator, for example. These are all BEIS ALBs that I am responsible for, and it is always a fine balance. I cannot give you a scientific answer as to when, if at any time, I can direct them to do whatever it is that I want them to do. I can only nudge and persuade.

Q568 **Andy McDonald:** Secretary of State, we have heard from many witnesses who have told us that the market and the regulation of the market have failed. You are telling us today that the market is good and that, when it comes to the supplier of last resort, it has been very successful in sweeping that up. We have heard of the difficulties that those takeover companies have had in getting data from administrators. They have been sitting on it. Months and months, people waited to get their credit balances across. Is there not something deeply wrong in the system where administrators are only incentivised to obtain as much money as they can for their investors, and to hell with customers or the costs to the wider market? Is there not a fundamental flaw in the relationship of administrators and the duties that they owe?

**Kwasi Kwarteng:** In terms of the premise of your question, I am not saying that the market was hunky-dory and worked perfectly. It clearly did not. There were clearly systemic failures in it, not least because the wholesale gas price, from a low of 13p per therm in the second quarter of 2020, hit, as I see it, 226p per therm in the last quarter of last year. That was an uplift of 18 times, so there were huge wholesale pressures. What I did say was that things like the supplier of last resort, which were designed for company failures, worked very well, so there were bits of the system that worked well.

In terms of the administrator, you will know that one of Ofgem's first principles is consumer pricing and to protect the consumer. That is one of the reasons we have the price gap in the first place. We were absolutely focused on protecting the consumer, as is Ofgem, so I do not accept—

Q569 **Andy McDonald:** Ofgem would like to get its teeth into these administrators, and you have just told Mr Fuller that you do not want it to have any more powers.

**Kwasi Kwarteng:** As I said to Mr Fuller, the way forward is for Ofgem to have more stringent financial requirements for new entrants and also to do its job, as Jonathan Brearley is suggesting, more thoroughly in regard of looking at the responsibility of the people operating the companies.

Q570 **Andy McDonald:** You recognise that the duty owed to investors is in direct conflict with what is happening to people on the ground. We have heard that 12 million households are going to be in fuel poverty. The reality of that is going to mean that, in constituencies like mine, people will die of hypothermia this winter in their own home. Thus far, I have not



heard anything that is up to the urgency or the scale of the situation that we are in. We have just been putting off the imminent urgent work that you are doing. People will die in their own homes if there is no action.

**Kwasi Kwarteng:** As I have said, there have been lots of interventions, and it is important to recap on them. There was the £9.1 billion that the Chancellor announced in February. There was a further £5 billion in the spring statement. As he said and the Prime Minister has repeated, we are absolutely committed to making sure that the most vulnerable are protected through this winter.

Q571 **Andy McDonald:** Therefore, could you accept that, as one contributor to that, assets in a failed company should go into the supplier of last resort process before creditors get their hands on them? At least there would be some moneys there to assist people in those circumstances.

**Kwasi Kwarteng:** There is an insolvency practice. Creditors are paid. That has been the case for decades. There is a chain of responsibilities in terms of people supplying credit and how creditors are paid, and I would not wish to rip that up. That is something on which the whole system is based. I know you are not necessarily in favour of our economic system.

**Andy McDonald:** It is whose side you are on really, is it not?

**Kwasi Kwarteng:** That is exactly how credit works.

Q572 **Paul Howell:** Can I follow what Mr McDonald has just been saying before I go on to my own point? In terms of the balance of where the money is going, what is left, whether it is going to creditors or whether it is going there, there is a peculiarity in this one. You have the supplier of last resort, but you also have where the money sits, customer deposits and things like that, or advanced payments and things. Surely that should sit as part of it. I am not sure I am convinced that it should be wholly to the exclusion of the creditors that you are taking this away, but there maybe needs to be a balance somewhere that we should be looking at.

**Kwasi Kwarteng:** If that were the case and creditors were not going to get their debt repaid in a system like that, nobody would ever invest in these companies and these companies would never be able to raise any capital whatsoever. You would essentially kill the industry. That is what would happen. In terms of credit balances, there were better things that you could do to protect consumer credit balances and ring-fence them so that people who were operating these companies could not raid them as a piggy bank.

Q573 **Paul Howell:** I would certainly agree that there should be some protection there required for the creditor.

**Kwasi Kwarteng:** That is right.

Q574 **Paul Howell:** Moving on to the particular point I was going to come to, which is the renewables obligation payment, again, this is a situation where companies have been able to take money off the consumers and it



is gone. It is gone when they have gone. One of the arguments is about whether that money should be paid across more frequently.

**Kwasi Kwarteng:** We looked at this. This came up three years ago when I first became Energy Minister. It seems anomalous to me that they, essentially, had to pay every year but then had a three-month grace period. Effectively, if you entered the market as a supplier in August, you did not have to pay the ROC payment until the end of the following October, so that was 15 months of free money. There were no other strictures in terms of financial covenants, financial requirements or solvency requirements to enter the market.

Now, Ofgem has said, "We are going to ring-fence consumer credit balances. We are going to impose or have more financial stringency tests", like a bank regulator would. The need to have more frequent ROC payments is not as great because, actually, they are dealing with the financial resilience point through ring-fencing credit balances and imposing more financial resilience tests and more solvency requirements on entrants into the market.

Q575 **Paul Howell:** Do you not think that the requirement to make that payment, though, would highlight the situation if companies are in problems?

**Kwasi Kwarteng:** That is probably a belt-and-braces approach. The reason why I was very interested in having more frequent ROC payments was that there were no real barriers to entry. It was a market that people could enter, and I thought that having more frequent ROC payments would actually deal with a lot of the moral hazard, as economists call it, where they are just gathering consumer balances and then, in many cases, just going bust when they have to pay the ROC payment. Now that Ofgem wants more financial resilience and is looking at more strictures, I think the frequency of the ROC payment is less of an issue.

Q576 **Paul Howell:** It is still an issue.

**Kwasi Kwarteng:** We could have a belt and braces approach and try to look at the frequency. Dan, do you want to come in on the frequency of the ROC payment?

**Daniel Osgood:** Not at this point, no, thanks.

Q577 **Paul Howell:** Moving on to third-party intermediaries, auto-switchers and these sorts of situations, do you think that we should be doing something in terms of regulation in that space?

**Kwasi Kwarteng:** This is something that needs to be looked at. Ofgem has made a commitment to review that. This has come up again and again in my time as Energy Minister and Secretary of State. It is particularly prevalent in relation to not so much consumers but small business, which are very vulnerable in this respect to third-party intermediaries, essentially linking them up with great deals. Those



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intermediaries, as you say, are not regulated. It is something we need to look at.

**Q578 Paul Howell:** One of the drivers for people switching to this delightful company where his father was the FD, or Bulb and others like that, was that price comparison sites were so focused on low price that there was no assessment of quality or integrity. Should there be something there in terms of the regulatory framework so that, if you are going to be putting yourself up as a comparison site or something, you must be holistic in your assessment and that it should not just be about, "That is the lowest price", even if that company has no sustainability? Should there be some risk evaluation?

**Kwasi Kwarteng:** I think you could do that, but I think there are different points of failure. If we can fix the entrants, and the companies and suppliers are all much more financially resilient, it should not be an issue for the third-party intermediaries because all the potential suppliers would be in a much better financial position. The problem was that the original entrants into the market were not robust and these websites were encouraging consumers to go to suppliers that were very exposed and fragile.

**Daniel Osgood:** If I can just add on third-party intermediaries, we published a call for evidence looking into this last year. It closed in December of last year, so we are looking at the results of that at the moment. It is one of the issues that we are thinking about as part of the wider refresh of our overall retail market strategy, because more competition and innovation in the retail market is going to be essential and will benefit consumers. As the Secretary of State has said, that needs to be in an overall environment where activities are appropriately regulated so that there is not some sort of risk to consumers in that. That is one of the things we are looking at as part of that future work programme.

**Q579 Paul Howell:** Coming back on that slightly, you said that the call for evidence was concluded in December. We are now at the end of May. When do we think we are going to finish the review and when are we actually going to see some action?

**Daniel Osgood:** We have said that we will publish an update on the overall retail market strategy before the next price cap setting, so that is this summer.

**Q580 Paul Howell:** One of the themes that we have seen in the discussions today has been about the lethargy of process in terms of keeping up with what is going on. I accept this has been a really dramatic change in the environment that is having to be dealt with, but there does seem to have been not enough intent.

**Kwasi Kwarteng:** We can always go faster, Mr Howell, but there is also Government process. I wish I could arbitrarily decide a lot of these issues, but there is a process that we have to observe in terms of



consultations and different players in the market. It is very easy to say, “We have to regulate the third-party intermediaries”, but you will have constituents who are third-party intermediaries, and they will be lobbying you not to be regulated. There is always a balance, as you know, in these issues. We have to hear views from right across the piece.

**Q581 Paul Howell:** I absolutely endorse that we have to get the balance right. There is no question about that. One of the few good things that came out of Covid is that sometimes we can do things more quickly than we thought we ever could. We need to make sure we keep that focus on.

**Kwasi Kwarteng:** I agree with that, but, if we fix the point of failure that allowed, frankly, undercapitalised and in many cases irresponsible operators to enter the market, and we can prevent that, I think a lot of these other difficulties with third-party intermediaries will become less relevant.

**Chair:** If I could encourage colleagues to pick up the pace a bit because of time, I would be grateful.

**Q582 Charlotte Nichols:** Secretary of State, I want to come in with a few questions about Bulb. BEIS has been allocated an additional £1.6 billion in resource and almost £1 billion in capital funding to prop up Bulb in 2022-23. This in on top of the combined £1.8 billion provided in 2021-22, taking total taxpayer funding up to £4.4 billion. How will these costs be recouped? When will this decision be made and by whom?

**Kwasi Kwarteng:** I am not sure where you got the figures from, and maybe Dan will clarify those, but, in terms of the special administrative regime, Bulb currently has some interest in private sector investment, and we hope to reach a deal. If you ask me when that deal is going to be reached, I will tell you that, with any commercial negotiation, it is impossible to predict how long it will take. Those people who have bought properties would never be able to tell you exactly when the deal will be concluded, and it is exactly the same in this situation with Bulb.

**Q583 Charlotte Nichols:** You think there is a realistic prospect of the sale of Bulb.

**Kwasi Kwarteng:** Yes, I am confident that there will be, and I am really working towards that. That is absolutely what we want to see. As a Government, we do not see ourselves as running energy supply companies. That is not what we want to do.

**Q584 Charlotte Nichols:** It has been reported that, since Bulb entered special administration, it has not been allowed to hedge, resulting in higher costs for taxpayers. Is there a hedging strategy in place? If not, why not? Are decisions on Bulb’s hedging strategy taken by BEIS or the Treasury?

**Kwasi Kwarteng:** Clearly, it is a Treasury matter. It involves the UK balance sheet. The whole principle of hedging is that you are essentially trying to mitigate risks from the market, and the Treasury can do that



anyway. It is the Government balance sheet, and that is one of the reasons why it did not enter into any hedging arrangements. Dan, do you want to talk about that?

**Daniel Osgood:** First, on the numbers, the amount budgeted for Bulb last year was £1.2 billion, and the amount budgeted for the current financial year is another £1 billion, so that is a total that has been budgeted of £2.2 billion. Spend last year actually came in below the £1.2 billion budget, but that is the total amount. As the Secretary of State said, that obviously depends on the ongoing M&A process and the hoped-for sale of Bulb as soon as is possible.

On hedging particularly, as the Secretary of State has said, we are working very closely in consultation with Treasury on this. In particular, we have been guided by *Managing Public Money* and what that says about hedging or other forms of insurance because, obviously, there is an additional cost to taking out those kinds of financial products.

The other thing I would say on hedging is that it simply changes the market you are trading in, so it does not necessarily, in itself, reduce the costs. We have looked at what would have happened if we had hedged when Bulb went into special administration at the back end of last year. Forward markets then were extremely high. Markets have been quite volatile since then and, in many cases, have been lower, so the question of hedging or not hedging does not in itself lead to a lower cost outcome. As the Secretary of State said, we work very closely with the Treasury guided by *Managing Public Money* because we are very aware of the taxpayers' money at stake here.

**Kwasi Kwarteng:** The issue with hedging is that it is very risky because, essentially, you are taking a bet or trying to insure yourself against price movements. That insurance, as Mr Osgood said, costs money. In terms of managing public money, the Treasury, rightly, does not think that that is what the taxpayer should be doing.

Q585 **Charlotte Nichols:** I will come back on that point about managing public money, and then I will go back to you, Chair, because I realise that we are pushed for time. Secretary of State, you stated in a letter to this Committee, "The special administrator of Bulb is obligated to minimise costs of the administration process, and we continue to engage closely with them throughout to ensure taxpayer value is maximised". Why, then, are taxpayers paying Hayden Wood a salary of £250,000 when his failings have cost us billions of pounds? Who agreed to pay the CEO his full market rate salary during the administration process?

**Kwasi Kwarteng:** As far as the special administrative regime is concerned, the whole point of it is to ensure a smooth handover, so essentially he is being paid, as I understand it, on the terms that he was originally employed. In order to smooth the process, we kept him in place. It is all very well saying, "Let's cut his salary". If he went, we would have to get another CEO who, I guarantee, would have asked for a



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higher remuneration than Hayden Wood. That was the risk, so, taken in the round, it made sense to keep him on exactly the same terms as he had before. That is the reality, I am afraid, of this industry.

**Q586 Charlotte Nichols:** Are you seriously arguing that it is good value for the taxpayer that we continue to pay the chief executive of a failed energy company that the taxpayer has had to fund and bail out a quarter of a million pounds a year in salary?

**Kwasi Kwarteng:** In order to get an industry specialist, someone with experience in the industry, to become CEO of the company, looking at the pay of a lot of equivalent companies of that size, we could well have been in a situation where the person coming into the job would have asked for a lot more and we would not have been able to hire anybody. We could have allowed a civil servant to run it. That would have been a different call, but, in terms of getting a market operator and someone with experience in the industry, it made sense to keep him on the terms that he was on before until we manage to sell the company.

**Q587 Andy McDonald:** You call him an experienced operator. He is a total failure and you keep on paying him. It is ridiculous.

**Kwasi Kwarteng:** No, he is not.

**Andy McDonald:** No, he is. He has failed, has he not? Secretary of State, the Government are providing £350 to 80% of households through the energy and council tax rebates but have only increased the size of the warm home discount for those most at risk of fuel poverty by £10. What analysis has your Department undertaken in relation to how much more support households on low incomes will need to afford their energy bills?

**Kwasi Kwarteng:** We have looked at the warm home discount a lot, and we have tried to do all we can to make sure that, first, the people who receive it are the most vulnerable and to try to extend the scheme, which is what the Chancellor announced. Now, as I have said, there will be subsequent announcements soon, which I think could well relook at the warm home discount. I cannot say when that happen or what the extension will be in terms of the commitment and the amount we are giving, but I think that is being looked at.

**Q588 Andy McDonald:** The Treasury reportedly blocked your proposal to increase the rebate scheme to £500 or more for either all households or the fuel poor. How confident are you that the Treasury will deliver the level of support required to deal with the scale of this crisis in time for this massive price cap increase in October?

**Kwasi Kwarteng:** The predicted price cap is one thing, but we have also heard that the Chancellor is committed to more support and more help before the price cap kicks in, so I am very confident that there will be more intervention.

**Q589 Andy McDonald:** Will you consult on the development of a social tariff to



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help the vulnerable and the fuel poor in the longer term? If you are not going to do that, why would you not?

**Kwasi Kwarteng:** We had a social tariff before 2011. Is that right? Now we have schemes like the winter fuel payment and the warm home discount that you have described, which have largely replaced a lot of the social tariff. That is how we provide support for very needy vulnerable households.

Q590 **Andy McDonald:** Lots of households are going to go into massive debt over this period. How are you going to support households in those circumstances? These are debts that they are never going to be able to pay. They are going to be burdened with this and, of course, that is utterly damaging for the economy.

**Kwasi Kwarteng:** I do not know what debts you are referring to.

Q591 **Andy McDonald:** If people are not paying their bills and they are mounting up debts with their suppliers, it is called a debt and they are just going to be stuck with it. What is the response of the Government to people in those circumstances?

**Kwasi Kwarteng:** As I have said, we are actually focused on intervention. We have supported consumers so far to the tune of £9.1 billion. The spring statement had another £5 billion and, as I have said repeatedly, we have to wait and see. I am sorry I cannot announce it today in this forum, but we are going to have to wait and see for further interventions, which I am confident will come. They may not be able to solve absolutely every problem that we face, but I think they will go some way to dealing with this cost of living issue.

Q592 **Andy McDonald:** Hopefully you will look specifically at the issue of debt. Can I move on to the burden of standing charges for prepayment users? Clearly, the burden is upon you to take action to stop self-disconnection. Prepayment meter users, Chair, would have to pay over £200 to their supplier to get the damn thing out and get on to a better rate of payment. What will you do to make sure that those people are not self-disconnecting and, as I said to you earlier, dying of hypothermia in their own homes this winter?

**Kwasi Kwarteng:** You will know that I have had a number of engagements with the industry and suppliers. People have said that they are absolutely focused on trying to deal with the prepayment issue. I have written letters to the suppliers on this. I think Jonathan Brearley said that this was something that Ofgem was looking at to see how it can make protections of prepayment customers more robust. That is something he is very focused on.

Q593 **Andy McDonald:** Getting off prepayment and moving on to a smart meter is going to cost that impoverished person in fuel poverty £200 to get on to a better rate of payment. Surely Government should be intervening in those circumstances to see what can be done to help those



people.

**Kwasi Kwarteng:** That was something that Jonathan Brearley expressly said, either in this Committee or certainly earlier, that he was trying to look at.

Q594 **Andy McDonald:** Can I just turn your attention to debt agencies? There is a lot of evidence from those debt agencies that they are not able to help in the way that they should. They cannot get access to sufficient funds that would help them alleviate debt in those circumstances. Are there any plans in place to support those charities and agencies to deliver emergency credit or vouchers, especially to prepayment customers?

**Kwasi Kwarteng:** Citizens Advice is definitely a body that we speak to very regularly. The energy suppliers also have obligations under the warm home discount industry initiatives and it is something that we engage with charities on all the time. We are constantly seeing what more we can do to help people in those circumstances.

Q595 **Andy McDonald:** I will finally leave this with you, Secretary of State. For many members on this Committee, their perspective is that there is a disconnect between the agencies and the suppliers, that the agencies and charities are ideally placed to assist and that a great deal more work needs to be done if we are going to avoid those deaths this winter.

**Kwasi Kwarteng:** Mr McDonald, I accept that we could do a lot more to co-ordinate, particularly suppliers. I speak to people in all sectors of the energy market, and we could have a more co-ordinated approach. That is something I will get officials to think about and something I will make a point of.

Q596 **Charlotte Nichols:** Secretary of State, energy suppliers told us that it is no longer viable for the rebate scheme to be repaid from next year. I am interested to know what the Department's estimates are of the cost of non-payment of the scheme and how will this be recouped. Are the Government open to reviewing their plans for the repayment of the scheme and converting the rebate into a grant for vulnerable customers?

**Kwasi Kwarteng:** The rebate, just to recap, is the £200 that will be recouped in £40 instalments. The thing to really focus on or bear in mind is that it is not a loan. There is no interest on it. It is a flat amortisation.

Q597 **Charlotte Nichols:** It is a loan if you pay it back.

**Kwasi Kwarteng:** Technically, it is not a loan if it does not have interest, and non-payment will not affect people's credit ratings.

**Alan Brown:** It is a free loan.

**Kwasi Kwarteng:** As I have said, we are reviewing interventions all the time, and the Chancellor is committed to doing more in that space before the price cap kicks in, in October.

Q598 **Charlotte Nichols:** We are concerned on this Committee that the



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payment of the rebate will not reduce the energy costs of approximately 700,000 customers in arrears. Instead, it will be used to reduce their debt. What action can you take to ensure that the rebate is used to maintain energy usage and not used to pay down debt?

**Kwasi Kwarteng:** I cannot, as Secretary of State, tell consumers how to use their energy. I try to avoid that. A lot of the ability of the rebate to be repaid will be driven by the wholesale gas price and what the price cap will be in a year's time. None of us can tell that.

Q599 **Charlotte Nichols:** Do you think it is fair that the poorest households, who often also have the lowest usage, will pay the same amount towards this policy as richer households who can afford higher usage?

**Kwasi Kwarteng:** The way that the £200 works is that the £40 will be claimed back through bills. In some instances, people in the most vulnerable households are supported on their bills anyway. There is a whole range of things, like the warm home discount, the winter fuel payment and other schemes, that help people with their bills, so I do not see that they will necessarily be under pressure from the rebate.

Q600 **Alan Brown:** We have heard that 6.5 million households are classed as fuel poor just now. Ofgem told us earlier on that that could rise to 12 million with the October price rise. What do you think is an acceptable number of fuel-poor households to have in the UK?

**Kwasi Kwarteng:** I do not have a number. All these issues are very difficult and very sad, because they are individuals. We all have constituents. We all know people who are struggling in difficult circumstances. That is why the Government have intervened in the way they have done, to the tune of £22 billion, as they did through Covid and as they did—

**Alan Brown:** Let us go back to the £9 billion.

**Kwasi Kwarteng:** Mr Brown, please, do not just interrupt me when I say things you do not like.

Q601 **Alan Brown:** We do not have long, Secretary of State, so I just want to concentrate on a few things. Earlier on, you kept talking about the £9.1 billion energy support package. Is it not the reality that £6 billion of that is paid for by consumers on their bills? That is only £3 billion of Treasury intervention.

**Kwasi Kwarteng:** No, I do not recognise that.

Q602 **Alan Brown:** Can I ask you to go away and look at that? Speak to the Treasury, because pretty much two-thirds is policy cost for consumers.

**Kwasi Kwarteng:** Let us note that down and we can talk about that another time.

Q603 **Alan Brown:** Energy efficiency is clearly one of the best ways to tackle fuel poverty. The ECO4 scheme was supposed to start on 1 April this



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year. It is your responsibility to bring forward the regulations for ECO4. If they are not brought forward by the summer recess, National Energy Action reckons that 32,000 vulnerable households will miss out on energy efficiency installations. When are the ECO4 regulations going to come forward?

**Kwasi Kwarteng:** Do you have any idea on that timing? There is a whole range of things that we want to see published, but I will get back to you on that. I cannot give you a date.

Q604 **Alan Brown:** I can tell you the effect of not bringing them forward will be that people miss out and supply chains are broken up because there will be no continuity of work. It is a big concern for industry and charities.

**Kwasi Kwarteng:** I will get back to you on that.

Q605 **Alan Brown:** We know how many households could end up fuel poor, and we have spoken about energy efficiency being one way to tackle it. The Government have a 2030 target for all fuel-poor households and those in the rented sector to be upgraded to EPC band C by 2030. What is the progress on that?

**Kwasi Kwarteng:** Today, as I recall, it is 50.2%. If I go back 10 years, it was a much lower figure. I think it was about 12%, 10% or something like that, so, even on a straight line basis, we can be confident that a lot more than 50% will be on the EPC band C.

Q606 **Alan Brown:** Bear in mind that the number of fuel-poor households is increasing. We are looking at 6.5 million fuel-poor households at the moment and potentially 12 million. Are they all going to be upgraded to EPC band C by 2030?

**Kwasi Kwarteng:** What I am telling you is that, even on a straight line basis from 2010, there is a good chance that we can hit that target by 2030.

Q607 **Alan Brown:** How many households have been upgraded today, rather than percentages? The number that needs to be tackled has increased. How many actual households have had upgrades to EPC band C that are fuel poor?

**Kwasi Kwarteng:** I will get back to you with the exact number. I have the percentages written down, but I can get back to you on the exact number. All I want to stress is that, on the trajectory we are on, we have a very good chance of reaching the figure that you suggest by 2030.

Q608 **Alan Brown:** Earlier on, you mentioned £6 billion committed to energy efficiency measures. How much of that £6 billion is, again, borne by consumers and how much is Treasury-funded?

**Kwasi Kwarteng:** Ultimately, it is mostly Treasury-funded. It comes through the CSR and the Budget process, and we also committed to that in the manifesto. It is coming through Treasury money and is taxpayers' money.



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Q609 **Alan Brown:** Are you going to get to the £9 billion manifesto commitment for energy efficiency measures put forward by Treasury?

**Kwasi Kwarteng:** The £9 billion commitment in the manifesto was over 10 years. I think I wrote that bit, so I remember it was over 10 years. At the current run rate, there is no reason why we cannot do that.

Q610 **Alan Brown:** If we go back to windfall tax, rather than a windfall tax, why not just increase the supplementary tax?

**Kwasi Kwarteng:** That is, again, a suggestion that would be best made to the Chancellor. As far as windfall taxes are concerned, I have been very clear. I do not think they are a good idea, but we are under extraordinary circumstances, as people recognise, and he has not ruled that out. It is an option that he has kept on the table. It is the same sort of thing. You are getting more money from the sector in time when they are making profit with a supplementary tax.

Q611 **Alan Brown:** What is your take on the *Financial Times* story that the Treasury is looking at a windfall tax on electricity companies, including on renewable generation?

**Kwasi Kwarteng:** I read the reports in terms of the generators, but, again, we are asking the generators to deploy record amounts of capital to build the infrastructure that we need in order to hit the net-zero target, which I know, Mr Brown, you take very seriously. Again, that is a challenging proposition.

Q612 **Alan Brown:** I have one more question on upgrading properties to the energy efficiency EPC band C. The Government also say that this needs to be done where practical, cost effective and affordable. What does "practical, cost effective and affordable" mean, and what does that look like?

**Kwasi Kwarteng:** I think you know what those words mean. I am not a linguistic philosopher, but "affordable" means something that is inexpensive and "practical" means something that we can do fairly quickly. I cannot remember the third adjective.

**Alan Brown:** Cost effective.

**Kwasi Kwarteng:** Yes.

Q613 **Alan Brown:** You need to put figures on it or else it is just loose words that become a "get out of jail free" card for landlords. It means Government cannot commit.

**Kwasi Kwarteng:** What more figures do you want? We have set out very clearly in the manifesto and the CSR how much money we are putting in the different pots in regard to public sector decarbonisation and social housing. We have figures for the warm home discount. I am at a loss to know what specific figures you want me to tell you.

Q614 **Alan Brown:** I would appreciate if you were able to write to me about



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what “practical, cost effective and affordable” means in terms of numbers being exempt from being upgraded to EPC band C. It is really important. If we agree energy efficiency is one way to tackle fuel poor, we need to know what “practical, cost effective and affordable” is or else homes will not get upgraded.

**Kwasi Kwarteng:** Write me a letter, and I will get back to you with a fuller description as to what these particular words mean in this particular context.

Q615 **Richard Fuller:** Secretary of State, the chief executive of Ofgem was drawn into the net-zero transition for the distribution network, and so I raised with him that, with prices rising now, there might be a temptation in the future, as energy wholesale prices come down, to lock in some additional charges to assist with the green transition. Now, in my view, the chief executive fudged his answer to that and passed the buck over to you.

**Kwasi Kwarteng:** I did not see what he said.

**Richard Fuller:** I can assure you it was a fudge, but he passed the buck to you. Can you let us know whether the Government have any plans to take advantage of this, if prices come down?

**Kwasi Kwarteng:** No. The way the price cap operates is that it is a fairly complicated formula and independent of Government Ministers. We are going to have a price cap certainly through the end of 2023, and that will be calculated accordingly.

Q616 **Richard Fuller:** I am sure you are right. Ofgem set a profit margin within the price cap of about 1.9%. Coming on from what the chief executive said, perhaps he does not think that is sufficient, and, therefore, he may suggest the profit margin should be increased.

**Kwasi Kwarteng:** We are getting ahead of ourselves. Ofgem has been very clear that it wants to review the structure of the market and look at having more financial resilience tests for entrants. It is consulting on the frequency of the price cap, i.e. every six months or every three months, so we are not in a place where we can actually work out what margin it is going to be giving for profit in a price cap it is reviewing at the moment.

Q617 **Richard Fuller:** The chief executive of Ofgem is coming forward with a lot of suggestions about what should be done now, which are really what he should have been doing before.

**Kwasi Kwarteng:** Yes. It is easy, with hindsight, to say, “We should have done all of these things”.

Q618 **Richard Fuller:** You will know, Secretary of State, that, in business, keeping on a chief executive who has not done what he or she should have done in the past to look at things that he or she says they want to do now is not always the right answer. Does the chief executive of Ofgem have your full confidence, given the mistakes that he has made?



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**Kwasi Kwarteng:** I speak to Jonathan Brearley very frequently. He came into his office just at the end of 2019. He has lived through the Covid period as CEO. He has lived through this huge gas price spike, and he has also lived through this Ukraine crisis. He has spoken very effectively to Government and also to the industry, and he has done a very good job. Now, a lot of the structural problems were there before he became the CEO. In terms of the low barriers to entry, what we were discussing about the renewable obligation payment and the frequency of the renewable obligation credit, all those things were set before he became the CEO. He steered the industry through the Covid crisis.

People forget the industry was facing an existential threat through that period. Now, because nothing happened, people forget that. Then we were in this huge, unprecedented gas price spike. If you look at the SoLR process, Jonathan Brearley and his team were working every day. I was on calls with them all through the weekend, and they managed to find homes for 28 companies and, more importantly, for their customers. He has done a very good job, and his team has worked extremely hard to get through a difficult process.

Q619 **Richard Fuller:** Does the price cap stay beyond 2023?

**Kwasi Kwarteng:** We are going to have an energy Bill, as was announced in the Queen's Speech. There will be more details about that in the Bill. I am sure you will be debating that very assiduously with the Energy Minister.

Q620 **Chair:** When will the Bill be published

**Kwasi Kwarteng:** I cannot tell you when the Bill will be published.

**Chair:** Imminently.

**Kwasi Kwarteng:** We know it is in the third Session. I can give you that. That was announced.

Q621 **Ms Ghani:** Secretary of State, I have been allowed to squeeze in short questions. Hopefully we can get a short response. When you become boss of a Department, you have the luxury of being able to do what you like with certain portfolios. It cannot be easy with this one because it is consuming so much of your time and taking up so much time in the press, with the public's concern for rise in fuel bills. If you had a magic wand and were not restricted by the Treasury, what three ideas do you wish you could exploit to help out on this problem?

**Kwasi Kwarteng:** I work with Treasury colleagues in a very focused way. It is a shame because we are talking about the post-Covid situation and Russia-Ukraine. There are immense opportunities, and I see Mr Howell and others in constituencies where we are transforming the industrial outlook of the UK. With the Nissan and Britishvolt announcements, and the offshore wind turbines and monopiles that we are building, we are reskilling whole areas of the United Kingdom. There



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is a huge ambition in nuclear. We were leaders in the 1950s and 1960s in civil nuclear. We took our eye off the ball. Now, once again, for the first time in decades, we are focusing on nuclear power, so there are huge opportunities in terms of investment.

It is not just the software giga economy businesses. We are looking at manufacturing skills, green industries and hardware in terms of wind turbines, monopiles and all those sorts of things. The great thing about it is that it is all happening in what was our old industrial base. I go up to Teesside and speak to Ben Houchen, and he is thrilled by the possibilities of the investment in the new technologies. As a broad answer to your question, it is a shame that we are talking about things that we very much need to deal with in the immediate here and now, because there are great prospects for the country in terms of investment, new technologies, net zero and the push towards a greener decarbonised economy.

Q622 **Chair:** Very lastly from me, Secretary of State, our focus has been on domestic supply, but many businesses such as coffee shops, hairdressers and hotels are also facing enormous energy bills. Are you going to be announcing any further support for industrial and commercial customers?

**Kwasi Kwarteng:** We have to look at their suppliers, and we talked about third-party intermediaries and possible regulation or oversight of that. Also, I cannot emphasise enough that there was unprecedented support for the economy over the Covid period of something like £450 billion, which we have all forgotten about. It is important that we remember that the taxpayer, Treasury and British Government spent huge amounts of money to support our businesses through a difficult time.

Q623 **Chair:** My question was about energy bills. You are going to review intermediaries. Is there anything else?

**Kwasi Kwarteng:** You know this. The energy bill is part of the general cost of doing business. VAT, taxes, business rates and all those things combine to create a cost for small businesses or businesses generally.

Q624 **Chair:** They have to stomach it just because it is a cost of doing business.

**Kwasi Kwarteng:** We have provided support on all of those things.

Q625 **Chair:** We are looking forward to seeing you on 28 June for a general work of the Department.

**Kwasi Kwarteng:** I thought you were going to say a general workout.

**Chair:** We can do that before, if you wish. Will we have the announcement on support for energy bills by then?



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**Kwasi Kwarteng:** I do not know. As I keep repeating, the Treasury and the Chancellor are responsible for those announcements, and I cannot tell you or speak for him to say when those announcements will take place.

Q626 **Chair:** This is just an observation, but Secretaries of State are also representatives of the Government. We have a Cabinet system in Government.

**Kwasi Kwarteng:** If ever you are a member of Government, which I deprecate, you will know that, as it has been for centuries, fiscal responsibilities, questions about tax and announcements on those things are matters for Treasury. I cannot stand over the Chancellor and say, "You have to come out with this announcement on such and such a date".

**Chair:** You should do.

**Kwasi Kwarteng:** That is what they do.

**Chair:** Customers and bill payers will be looking as closely as we are for the announcement. We look forward to it. Thank you both for your contributions this morning.

**Kwasi Kwarteng:** Thank you, Mr Jones.

**Chair:** I now bring this session to an end.