

Public Accounts Committee

Oral evidence: Energy Bills Support, HC 1074

Thursday 23 February 2023

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Members present: Dame Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Mr Jonathan Djanogly; Peter Grant; Anne Marie Morris; Jill Mortimer.

Gareth Davies, Comptroller & Auditor General, Simon Bittlestone, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1-79

Witnesses

I: Dhara Vyas, Deputy Chief Executive Officer, Energy UK; Andy Manning, Principal Economic Regulation Specialist, Citizens Advice; Paul Wilson, Policy Director, Federation of Small Businesses; Kate Nicholls, Chief Executive, UK Hospitality.

Report by the Comptroller and Auditor General

Energy bills support (HC 1025)

Examination of witnesses

Witnesses: Dhara Vyas, Andy Manning, Paul Wilson and Kate Nicholls.

Q1 Chair: Welcome to the Public Accounts Committee on Thursday 23 February 2023. In the autumn of 2021, energy bills increased significantly. They have remained very high, and today we are discussing the schemes that the Government put in place to protect businesses and consumers from these high prices. We have invited consumer and business representatives to speak to us today, to discuss how the schemes have worked for their sectors and what challenges they foresee ahead. This is to prepare us for a session on Monday with Government witnesses from the former Business Department, which is now the Energy Security Department, to talk about the next steps, because a number of these schemes, particularly the business schemes, will be changing from March. The money spent on the schemes is much less than the Government



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predicted; we are interested in exploring why that might be. It is not just about the weather element, though that will have played a part.

I welcome our witnesses. We have with us Andy Manning, who is the principal economic regulation specialist at the citizens advice bureau; Dhara Vyas, the deputy chief executive officer of Energy UK, representing the energy companies; Paul Wilson, the policy director for the Federation of Small Businesses, which is self-explanatory; and Kate Nicholls, chief executive of UKHospitality, which represents hospitality businesses across the UK. Both Mr Wilson and Ms Nicholls's organisations also represent Northern Ireland, as they are UK-wide.

First, I would like to ask each of you in turn to outline very briefly the main concerns for your interest group—your clients, or the sector that you represent. What do you think has gone well, and what you think the Government needs to do next?

Dhara Vyas: Reflecting on the energy price guarantee, the energy bill relief scheme, the energy bills support scheme and the NAO Report, the first thing is that the Government moved incredibly swiftly to put in place support for customers who were looking at very high bills after the price forecast in autumn. The speed of delivery was difficult, posed problems and meant that energy suppliers had to respond incredibly quickly to implement the brand-new mechanisms. It is an unprecedented scale of delivery, really, in an unbelievably short timeframe.

When the decision was made, getting the work done was a huge job. There are some issues around the practice and the way that it was done, primarily around the way that Government engaged with energy suppliers; some suppliers were not in the room. There was an Energy Prices Act, which was emergency legislation—it had to be. It was really important that the emergency legislation passed, so that the money could be passed on to customers. However, there are aspects of the legislation that perhaps did not need to be there, and had no bearing on passing the money to customers—things such as giving the Secretary of State quite open-ended, wide-reaching powers to intervene on licence conditions. Although there is a lot that was good about the scheme—it delivered the support that people and businesses desperately needed at the time—it is important to consider whether certain things were rushed and, as we go forward, how we can learn from it, so that we are targeting support better at those people who need it the most.

Chair: Okay. We will come back to the issue of targeted support later. Mr Wilson.

Paul Wilson: From a small business perspective, the energy bill relief scheme is a really strong intervention, and it came at a time when it was desperately needed by the small business community. Every quarter, we survey small businesses on a range of things that underlie their confidence. Throughout last year, they were reporting record-breaking cost increases, and the key driver of those was energy. We know that

around one in five small firms saw their bills triple, or go even higher than that, over the last year.

EBRS came in, and gave small businesses certainty for a six-month period, which was really important, and the confidence to carry on through the winter. It also had a calming effect on general inflation levels. There were some difficulties in delivery and in understanding whether businesses were benefiting from the discounts that were meant for them, which we can talk about in a bit. In terms of our main concerns looking forward, as happy as we were with EBRS, we are equally concerned about the energy bills discount scheme that is coming in in April, which does not deliver certainty. The universal scheme delivers discounts that I do not think will affect small business decision making, because they are so small. We are particularly concerned about the situation faced by a group of businesses that would have signed up to a fixed tariff in the second half of last year. Those are some of the headlines from our perspective.

Kate Nicholls: I echo the points that have just been made. It was a very welcome scheme, and it was unprecedented. The fact that it had to be introduced quickly meant that the universality element was baked into it, but it was a substantive intervention, and there is no doubt that it saved many thousands of jobs and businesses in the hospitality sector. Half of our sector had already started to face contract renewals between April and September last year, and they were contracting at the peak of the market. As Paul said, you were seeing, on average, 150% to 300% increases, but towards August and September you were seeing 500% or 600% increases.

You were also seeing a complete failure in the market: companies were not willing to contract, so you were having to go on daily spot pricing. The cost increases were substantial, and there is no doubt that many businesses were failing. We saw quite a high degree of business failure in the hospitality sector in the second half of last year. We saw a contraction of 5%, and 75% of that came after September, largely driven by energy costs that were going through. There is no doubt that that would have been considerably worse had there not been Government intervention.

Q2 Chair: Is that 5% more than you would expect in a normal year? What is the difference?

Kate Nicholls: Yes. We lost 10% during the 18 months of covid, so 5% is substantially higher than you would see in a normal year, when the failure rate would be much lower. Obviously, you would also see quite a high number of new openings and entrepreneurship, but you are not opening into a benign climate, so there are business failures. About nine out of 10 were independent small businesses—pubs, bars, restaurants and hotels. It was predominantly restaurants, late-night bars, hotels and bed and breakfasts. In those sectors, once those businesses are gone, they are gone for good.

There are three key issues going forward. One is around cost. The wholesale price was regulated. It is a very complex scheme to work through for a lot of small businesses, and even for medium and large businesses. The price was very difficult to ascertain, and there was an incentive to fix a contract. The wholesale price is regulated at the moment. That will come to an end, and as Paul said, there are concerns about what happens when you get to April. In our sector, you are looking at an average increase in prices in April of about 88% as a result. There are also the non-commodity prices—standing charges and access charges—where we are seeing 500% or 600% increases. That obviously almost wipes out some of the impact of the commodity regulation and support that the Government have provided.

Secondly, there is availability and choice. We do not really have a competitive market. There is a refusal to supply hospitality—it is seen as too risky a market—so people have no choice or option, and therefore there is no incentive to provide competitive terms. We are seeing that coming through quite a lot.

Thirdly, there is the issue of risk—the balance of risk between the generators, the suppliers and the customers. There is quite a big demand for substantial up-front security deposits. That is based on the price of the contract being taken out at the time. That is tying up millions of pounds of working capital, because there is no ability for the sector to get insurance for this.

Those are the three key areas at the moment. In the ONS statistics, if you look at energy purchases as a percentage of total purchases—the operating costs of a business—energy for hospitality is significantly and disproportionately impactful. We are the second-most energy-dependent sector, but we do not have additional support. We are energy-intensive, but we fail the Government tests. That is why energy costs are at about 15% of total turnover at site level. Without that support, business viability is in question.

The wrap-up point of those three things is that when the support tapers in April—although we understand why that is happening—there will be a knock-on effect on business insolvency. In the NAO Report, the clear focus on supplier insolvency and customer debt comes through, but there is not as big a focus on business insolvency in some of those energy-dependent sectors.

Chair: Thank you; that is very clear. Andy Manning.

Andy Manning: First, to echo the other panellists, it is important to recognise how essential and welcome the bill support was. To give some context, if we were to be charged prevailing prices, the Ofgem price cap would currently be over £4,000, which is unthinkable. The essential nature of the support cannot be overstated.

That said, we are still in the middle of a winter like no other, in terms of the support that people need. To give some flavour, in December we saw a record rise in the number of people coming to us unable to top up their prepayment meters. We helped three people a minute with crisis support—access to food banks, fuel banks or charitable support. Interestingly, over three quarters of the people we were helping with crisis support were coming to us for that support for the first time.

It is important to recognise not only the breadth of the energy crisis, but its depth. People are coming to us with debt issues, and 50% of them are in negative budgets: their income is less than their essential outgoings. Given the energy prices, you can imagine what position that puts people in. Put all that together and, although the support was essential and very welcome, it is clearly not enough for many households as we go through this winter.

On the schemes, the energy price guarantee is clearly very effective in providing support, partly because it just happens; it goes to the person who needs the support, rather than their needing to apply for it. The EBSS £400 also works effectively if someone is on direct debit or smart prepay, because, again, it just happens, and people do not need to apply for it. However, people are coming to us with issues with how the EBSS applies to traditional prepayment meters; vouchers are received, and must then be taken somewhere so that the person can top up. About three quarters of the people who have contacted us about the EBSS have done so about not having received their vouchers. They might then have problems getting them reissued by suppliers.

We have particular concerns about April, because a lot of the support falls away from 1 April. A particular concern is people on low incomes, including those who fall just outside of being in receipt of benefits, which would allow them to get the cost of living payments. They might be in very similar circumstances to people in receipt of means-tested benefits, but will get a very different outcome, because they do not qualify for the cost of living payment. We have therefore asked that the energy price guarantee be extended at its current level beyond April, when it is due to go up from £2,500 to £3,000. Later, perhaps we could return to the drivers, and how that is possible from the fiscal point of point of view. I hope we can also return to how, working with the industry, we will carry out a detailed review with partners, to reach consensus on what long-term bill support could look like. We are due to report on that in the next couple of weeks.

Q3 Chair: I want to ask Mr Wilson and Ms Nicholls whether there are any particular issues in Northern Ireland. Obviously, the money reached consumers there later. As you have a footprint across the whole UK, could you tell us what the situation has been like in Northern Ireland?

Paul Wilson: I consulted with FSB's Northern Ireland-based team on this question. They are particularly disappointed with the speed of the roll-out of the domestic scheme, and have found it difficult to understand what is going on there, so there has been a communications issue around that. As you have said, it has been significantly delayed compared to the rest of the UK. I think they are a little unclear as to the exact reasons for that delay, and they would welcome clarity on that. Is it logistical reasons? Is it political reasons? What is underlying that?

In terms of the business-focused scheme, my impression is that the Northern Ireland scheme faced similar issues to those seen in the rest of the UK. We can talk about businesses finding it hard to understand their eligibility and whether they are correctly receiving the discount, but we see that in the rest of the UK as well. I draw attention to the fact that a higher proportion of businesses in Northern Ireland use alternative fuels; among our membership, it is 14%, which is twice the UK average. That is significant for the whole country, but it is doubly significant there. We found that there was a delay over understanding exactly how that equivalent support would be delivered and what exactly it would be. It has been doubly difficult for Northern Ireland.

Kate Nicholls: We have businesses in Northern Ireland, but we also have a sister organisation, Hospitality Ulster, so I have consulted with them to get some information for you. I echo what Paul said: it started later. It is a simpler market, so there have been fewer delays in getting the roll-out of the support scheme, but the big issue is that there is a greater reliance on electricity, and then you have the fact that 65% of the hospitality industry is not on the mains gas grid. That is a substantially higher proportion—

Q4 Chair: 65%?

Kate Nicholls: 65% is reliant on heating oil. Heating oil peaked at around three times the pre-war price, although it has dropped back, but obviously that support of £150 is not a considerable contribution, and, as far as I am aware, it still has not been paid through. There is an issue about non-mains businesses across the whole UK, but it is a disproportionate amount in Northern Ireland. By contrast, about a third of businesses are not on the mains and rely on oil across the whole of the rest of the UK; it is about 40% or 45% in parts of Wales and Scotland. You have issues in the rural parts of the UK as well, but 65% is a significant amount. That is the biggest issue we have. Again, a greater proportion of them are dependent on electricity, which is the second-largest component of their energy mix. They have not had reports of problems with the scheme paying out for those on the mains, but it is the non-mains element that is the biggest challenge in Northern Ireland.



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Q5 Chair: It is unusual for this Committee to look at this issue, because normally the Northern Ireland Executive would administer the schemes. However, the former Department for Business—now the Department for Energy Security—is administering it on behalf of the UK Government because there is no Government in Northern Ireland, hence this Committee covering territory that we do not normally cover. Our sister Committee is sending a representative on Monday to discuss this.

Kate Nicholls: I will share with the Committee a report that was conducted by Hospitality Ulster and the university at Belfast. The other component is that you have more vulnerable businesses in Northern Ireland. They were subject to longer restrictions, so they have had limited time to recover. They have far lower cash reserves in the hospitality sector, and they are disproportionately independent. Obviously, you also have a higher level of deprivation among consumers.

Chair: It is very interesting for us to look at this. Mr Manning and Ms Vyas, have you anything to add about the Northern Ireland situation in particular?

Andy Manning indicated dissent.

Dhara Vyas indicated dissent.

Chair: I didn't think so, but just thought I would check. I turn to Mr Peter Grant MP.

Q6 Peter Grant: I have questions for each of the witnesses, so I will start with you, Ms Vyas, and go along the line—that way, it is easier for me to keep track of where I've got to. I am trying to get a layperson's understanding of what has gone wrong in the energy supply market. Domestic and business customers are paying three, four, five times as much as they were two years ago, but the cost of producing energy has not significantly increased. Running the nuclear power stations and the extraction of gas from the North sea are not significantly more expensive. All that extra money that customers are paying—where has it gone?

Dhara Vyas: Gas is traded globally. If we cast our minds back to the autumn of 2021, as businesses and economies really started to open up after covid, demand was higher and prices went up. At that point, I think 29 energy suppliers went out of business. That reflects some of the quite detailed work that the BEIS Select Committee has done on the state of the retail supply market. A number of energy companies arguably were not financially resilient enough to be operating in the market, and the failings of the regulator—

Q7 Peter Grant: Sorry, I am asking particularly where the money went. Is it too simplistic to say that the vast majority of the additional cost of energy to UK customers is going into increased profits somewhere within the energy sector? Is that too simplistic?

Dhara Vyas: Apologies; I began there because I think it has been a

growing issue since then. I was trying to start at the root cause, because that obviously added £4.8 billion to bills, and as it has continued we have also had the war in Ukraine. Gas is traded globally, and what this has highlighted is that as a country we need to ensure that we don't rely on imported Russian gas and imported gas, and that we invest in clean, home-grown domestic energy for precisely that reason. That is the cause of prices being high. It is traded globally, and we use the gas price as a reference price. If we look at decoupling gas and electricity in the long term, we should be looking at cheaper prices in the long term. It is about the design of the market and global trading.

Q8 **Peter Grant:** In your response to the Prime Minister's statement in September last year—and you have repeated pretty much the same thing just now—you suggested that the best way to get a secure and affordable energy market is, "expanding our sources of clean, domestic power like wind and solar." You also pointed out that making buildings more energy-efficient is important. You haven't mentioned the expansion of either gas production or nuclear production, which appears to be what the Government are pushing just now. Is there a significant difference of opinion between industry and the Government about where we should be investing?

Dhara Vyas: We absolutely think that we need to expand nuclear production. Nuclear is a really important baseline energy provider and it helps to provide the balancing that we need in the system. For a number of decades, we haven't had enough investment in nuclear. To be clear on that, I absolutely think the Government are correct. On gas, it is important to recognise that gas is an essential transition fuel for the energy transition, not only to meet net zero targets but to ensure that we are securing energy supply.

We are in different circumstances now than we were two years ago or even pre-COP26. In this country, offshore wind is nine times cheaper than

it was in 2015. Investment in these technologies does reap its rewards. It is important that the UK does not lose its place as a global leader, but we are at risk of losing our place as a global leader in investing in clean energy technologies. About £500 billion of investment is at risk because other countries globally are doing more to attract that investment, and there is a limited pot. Which country would you invest in right now?

Q9 Peter Grant: You mentioned that gas is traded globally. Does that mean that if there is an expansion of the UK's gas production, that gas might just be sold to somebody else? There is no guarantee that gas produced

in the UK will make any difference to the availability of affordable energy here.

Dhara Vyas: Yes, you are absolutely right. That was discussed quite a lot when there was a big conversation about fracking.

Q10 Peter Grant: Mr Wilson, your organisation produced quite a concerning survey in November 2022 when you asked small businesses what they have done to deal with rising energy costs. Obviously some businesses have answered yes to a number of questions, but almost one in three have either cancelled or scaled down their plans to invest in the business, and 10% have reduced the number of jobs. As you mentioned—and as you highlighted at the time—almost half have raised their prices, which makes inflation even worse. My first question is: have you gone back and repeated that survey since November '22 to see whether subsequent Government announcements have significantly changed the behaviour of small businesses?

Paul Wilson: We have not repeated that survey, but we plan to in the near future. The figures you outline are absolutely right. We also asked small businesses what would happen if support ended at the end of March and, crucially, if energy prices remained as high as they were. Energy prices are not as high as they were, but we received some alarming statistics on that combination of things happening. Up to 24% of businesses would have had to consider closing, downsizing or radically restructuring. We are in a different scenario now because, provided that energy prices continue to head downwards, those on variable contracts will not be in that very difficult situation, but as I said earlier, there are those on the fixed tariff whom we are still worried about.

Q11 Peter Grant: Ms Nicholls, your earlier comments and some of the comments made by UKHospitality and your sister organisations have been concerning to us. One of the surveys you did—I cannot find the exact details—indicated that about 40% of hospitality businesses had, at most, three months' worth of reserves left, and about 20% had no



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reserves at all. How does that compare to what you would usually expect?

Kate Nicholls: It is significantly worse. You would have to go back to precovid before you would have a reserve level. The sector has been hit by two and a half years of disrupted trading, and it continues to be hit by disrupted trading. Before covid, about half of the businesses would have had at least one to two months of reserves, and the remainder would have had considerably more. The other big issue is that the sector is considerably in debt as a result of covid—you would not have had that level of indebtedness before—so there is the pressure of having to pay down debt. There is about £10 billion of covid-related debt still sitting in the hospitality sector, and borrowings that are twice the level of deposits, which is the exact flip of the rest of the economy coming out of covid.

You had an inherently robust sector that was viable, strong and growing pre-covid. You now have one that is incredibly vulnerable because of what businesses went through during the covid crisis; they did not have time to recover and then they were hit by the crisis as a result of the war in Ukraine and rising prices in February, April last year, when the two hits started to come. That is where you have particular problems. Unlike other industries, a disproportionate number of hospitality businesses had energy contracts that came up for renewal earlier in the year than in other parts of the economy.

Q12 **Peter Grant:** Clearly, as you mentioned, the energy price crisis hit you when people had just about got back to their feet. We can see there has been a significant and, for some of your members, unsustainable increase in costs through increased energy prices. Have there been any other hangovers from covid that have caused problems? Have you found, for example, that customers are going back to hospitality venues as much as they were? Is there still a degree of reluctance for people to enter crowded restaurants and bars, because they are still a bit concerned about their health?



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- Q13 **Kate Nicholls:** No, not to the extent that you might have expected. Obviously, you did have that hanging over at the beginning of last year, but that has dissipated. There is obviously the structural change that more people are working from home, and you have had disrupted transport. If you look at footfall, you are still looking at about 85% of pre-covid levels across the UK hospitality sector as a whole. Partly, that is business travel—meetings, people in work and people coming into city centres. It is also our international tourists, if you are talking about major city centres. But the revenue levels for most of last year were at or about pre-covid levels.

The issue is the costs. Currently, they fluctuate between 96% and 106% of pre-covid levels of revenue for the sector as a whole over the last year. You would need to be doing 125% of pre-covid levels of trade just to stand still in the current cost price environment. The demand is there, and people are still coming out. Yes, it is softer, and yes consumer confidence has undoubtedly taken a hit, but you are seeing that where people have discretionary money to spend, they are spending it in the leisure and hospitality sector.

The challenge is translating that top line into bottom-line profit. In 30 years of working in the hospitality sector, it has never been harder to get to breakeven because of the cost pressures we are facing. It is not just energy; we have other cost pressures coming through, and supply chain pressures coming through due to energy and food. Food price inflation and wage rate inflation were occurring pre the war in Ukraine, and energy prices were rising pre the war in Ukraine; you have just had a significant escalation of all those costs. This time last year, our input cost price inflation was running at about 11%; it is currently running at 20%.

There is no way that we can pass that on to customers.

- Q14 **Peter Grant:** Mr Manning, can you give us an indication of whether there has been an increase in people contacting Citizens Advice offices across the UK who are concerned about their energy costs? Do you have figures for that? Are you able to provide us with figures after the meeting?

Andy Manning: Yes, I can give a quick overview and then we will be able to follow up. We produce our cost of living briefing today, so the latest figures will be available later today. We have seen a rise in the number of contacts we have had across the board on cost of living issues, including energy debt and the ability to top up the prepayment meter. As I mentioned earlier, a record number of people unable to top up their prepayment meters contacted us in December, and it is similar for energy debt. As I said earlier, it is the depth and breadth of it. A lot of people contacting us aren't people who have contacted us before, so this is going deep and broad.

- Q15 **Peter Grant:** The Government's measure of where they want to target the support is based on people who have to spend 10% or more of their income after housing costs on energy. Is that a reasonable benchmark? Is that a sensible place to define those who are going to struggle and those who should just about be able to get through?



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Andy Manning: I think it is a good place to start. I have a lot of sympathy with the people working out the numbers. You need a basis on which to calculate your numbers and work out your deadweight. It is a good place to start, but clearly as we go through it and look for a longterm solution, we will need to be more sophisticated in our thinking. That is a reasonable place to start.

Q16 Peter Grant: Does Citizens Advice use a different working definition of fuel poverty?

Andy Manning: There is a number of definitions out there. I won't attempt to repeat them to you. In terms of being able to understand the scale of the problem, we are comfortable using that 10% definition just to help people understand it. Dhara, are you looking to get in?

Dhara Vyas: I can tell you the definition if it is helpful. The definition of fuel poverty used to be 10%, and there are about 12 million households in that space right now, which is extraordinary. Almost half of all households are spending more than 10% of their disposable income. The current definition of fuel poverty is low income, low energy efficiency, so it is a more complex but more sophisticated way of looking at fuel poverty. Fuel poverty is not just about how much you spend on energy; it is about how leaky your home is.

Andy Manning: To follow up on that, Dhara said quite rightly that the 10% threshold gives you 12 million households. We are particularly concerned about a subset within that who miss the targeted support—people on a low income but not in receipt of benefits. We are particularly worried about those 3 million people when we come to April. They are captured within that definition of fuel poverty, but they are not in receipt of any targeted support.

Q17 Anne Marie Morris: I am afraid I am going to follow Mr Grant's example and ask a question of each of you, starting with your good self, Ms Vyas. One of the challenges is the structure of the energy sector: producers, the suppliers downstream, and then consumers. There has been debate

about whether we have the relationship between those groups right. You will be well aware of the wholesale marginal pricing approach, which was introduced post privatisation and has effectively resulted in a position whereby, in this crisis, the producers have done well because everybody is pricing at the highest level. The fact that we have renewables is kind of irrelevant for those purposes. It has been a real struggle for suppliers. The consumers, and now the Government picking up the bill, are in the worst possible place.

Do you think, going forward, that we need some rapid action to look at that relationship and that pricing mechanism? It looks like it is artificially increasing the amount being paid for energy. If we had a more realistic pricing arrangement, there would be less need for a bail-out, and we would not see many of the problems that we currently have. Is that fair?

Do you have any thoughts about how we should restructure and review how we price?

Dhara Vyas: That is a huge question, and I will attempt to respond. You are absolutely right in your description of the way the market looks. When the market was privatised, we came to what is called a supplier hub model. With that, there was a benefit when you look at the schemes that we are discussing, because it meant that they could be delivered at speed in a straightforward way, particularly in the domestic space—particularly for households.

Your point was about the market mechanism, the way the market is set up and the market design. Actually, a lot of the low-carbon, clean renewables that have been built under contracts for difference have been paying back in the last 18 months. You have been seeing a discount on bills because over the years the strike price has been agreed at a certain amount. So there is a benefit to some aspects of the way the market has been designed, precisely because it is paying back to customers and reducing bills. But we are at a tipping point in this market. We do need to redesign and restructure the way the electricity market works.

A big programme of work is being undertaken by the Government. It is called the review of electricity market arrangements and it looks at precisely what you have described and how to change that and how to change the pricing structure. My concern about it is that—well, there are two things. We mustn't rush it, because that could lead to a number of unintended consequences, the worst of which would be higher bills. But there is also a second part, retail market reform, which I don't think it is being discussed in enough detail. To go back to my previous answer about the suppliers that went out of business, the retail market fundamentally isn't really working right now. I think household customers owe about £25 billion of debt right now. This is a loss-making market. On average, retail energy companies make around a 2.5% loss; they don't make a profit.

This is also the market that we want to deliver the changes we need to homes. We have talked about energy efficiency. Retailers have a supply chain and can deliver more through the ECO scheme than the current design perhaps allows. We need to think about what the design of energy efficiency is.

Q18 Chair: Could you explain the energy company obligation scheme in a sentence?

Dhara Vyas: The energy company obligation is a scheme whereby suppliers can make energy efficiency improvements and provide insulation in homes to improve homes, particularly for those who need it the most—the poorest households. There is a lot more you could do on energy efficiency via that scheme.

We also need to decarbonise heat in this country. We need to get homes off the gas grid, and retail suppliers, again, could be really well placed to do that.

Thirdly, this is not just about energy efficiency; it is also about demand reduction. We need a smart grid whereby we can use the clean energy that we are going to be getting on to the system when it is cheapest and most plentiful. Households need to be able to do that, as do businesses.

There is a real modernisation that needs to happen and the current remit of the market is not fit for purpose to deliver it.

Q19 Anne Marie Morris: That is very helpful and gives us plenty of food for thought. Mr Manning?

Andy Manning: To follow up on Dhara's point about decoupling, essentially you are absolutely right that the sooner consumers can benefit from cheaper renewables, the better. So you end up in a trade-off—a lot of this ends up with difficult trade-offs. What you said is absolutely true but, taking Dhara's point, we have to do it in a sensible, thought-through way, to avoid affecting investor confidence and for the long-term interests of consumers. It is the tricky thing of finding that balance. We need to do it as soon as possible, but without scaring future investors.

Q20 Anne Marie Morris: That is very helpful.

Mr Wilson, businesses have a particular challenge in that there is no price cap, so it's a bit of a free-for-all. The number of suppliers in the market is significantly larger than in the household sector, and the sorts of price increase we have seen are eye-watering. I have seen businesses facing an increase of 200%, and in one case 800%. The challenge, of course, is that the Government scheme came in at a fixed point, and where you were on your existing fixed-term contract and when you were going to have to renew impacted how much you were going to benefit by.

Do you think that there is now a case to be made for greater engagement by Government in looking at the role of the regulator? The regulator right now has much more focus on the consumer market than on the business market, and while this clearly wouldn't be about price caps, surely it should be about fair competition and some sort of pricing framework—something that enables your members' businesses, whether they are large or small, to have a sensible, level playing field, with fair competition. At the moment, there is a lack of transparency about how some of these prices are being calculated. I would welcome your thoughts on that.

Paul Wilson: I agree with that. The smallest businesses, by which I mean self-employed and microbusinesses—those with fewer than 10 employees—act very similarly to domestic consumers in terms of their knowledge of the energy market and the ability to negotiate with suppliers.

One of the things that they found really difficult during the EBRs was just trying to interrogate their bills to work out if they were getting the discounts that they were meant to. But, more broadly, we are pleased that Ofgem has done a microbusiness strategic review.

It has started to look at this space, but we do think that more needs to be done. Part of that will be driving better transparency to help small businesses understand whether they are getting a fair deal on the price that they are being quoted. There is also a role for looking at the regulation of third-party intermediaries—those who may give advice or act as a broker for a small business when it is getting a deal—because we get feedback from members that experiences are very mixed when it comes to third-party intermediaries, and just looking at basic consumer protections, such as a 14-day cooling-off period. I think that was something that was initially spoken about and was then pushed back in turn. We would like to see Ofgem come back to that. I do think there is more that the regulator should be looking to do.

Q21 Anne Marie Morris: That is very helpful. Ms Nicholls, hospitality is dear to my heart because it is a significant part of my local economy. You paint a fairly bleak picture, and it seems to me that you have only touched the sides of it, because the anecdotal feedback that I am getting from my local businesses is that it is not just “in business”, “out of business” and “insolvent”. The whole structure of hospitality and leisure is changing, so the number of opening days has shrunk, which, in a sense, means that we have a different shape of the sector as a whole. So, to measure it just by numbers that are insolvent or still in business is probably not entirely an appropriate picture.

To fix the help, which is clearly needed, how can Government identify those businesses that should get extra support? As you rightly made clear, they are high energy users; you have to keep the fridges on all the time, no matter how many customers are coming through the door, so you are a high energy user.

One of the challenges is in looking at an SIC code, or some way of enabling the job to be done efficiently and effectively, because I think one of the drives of the Government was, “How can we look at some of the existing industry codes and therefore easily manage this support without finding we are benefiting sectors we didn’t want to benefit?”

I would be grateful for your thoughts as to how the Government might do that in the next scheme. At the moment, clearly, it largely excludes hospitality—I think that museums and zoos get included, but not the vast majority. What could be done? Are there codes that could be used to enable the right parts of this sector, which has been so badly impacted and does need help?

Kate Nicholls: I will try to be brief. I would just echo everything that Paul said in response to your question about what the regulator could do,

because there is a lot that could be done on those non-commodity charges and costs, which are having a disproportionate impact too.

But, in response to your specific question, I think there was a real change in approach over the course of the autumn, when the schemes were being developed and taken forward. Looking ahead to the scheme that came through, there were clear commitments given in the House that vulnerable sectors would be looked after, and hospitality was singled out by the then Business Secretary, the then Chancellor, and the Prime Minister, as being a vulnerable sector. Therefore, there was, perhaps, a perception that grew among businesses in the sector, particularly small businesses, that there would be additional support for them, whatever happened post April.

Then, actually, what you have seen, as you rightly say, is that that hasn't come through. That is because the test that is now being used is not just "energy intensive" but "trade intensive". That means exposure to international markets, and hospitality, although it is a key exporter—in terms of international tourism—doesn't pass that test.

Both of those tests use SIC codes, and there are very clear SIC codes for accommodation and food-and-beverage service, which would identify pubs, restaurants and hotels quite clearly. If there was the will to do that, you could look at, "They are energy intensive and the SIC code applies," so you would drop the "trade intensive" approach that would allow them to benefit from the additional support. That would be a quick and easy way of doing that, if the Government were so minded to, but, clearly, it would have additional costs.

Q22 Anne Marie Morris: That is very helpful. Thank you. Mr Manning, one of the things that the Government tried to do, in terms of helping the most vulnerable, was to put together a kind of smorgasbord of different types of support. Some of it was through schemes, but some was through pots of money that were provided to local government to, if you like, fill some of the gaps. So, for your average citizen, who is struggling in the way you describe, it is about looking at what the Government did in the round. Do you have any comments about whether that mix of schemes worked? Going forward, is there a better way of trying to properly target the vulnerable, both in terms of who should be helped and how they should be helped, and by what mechanism?

Andy Manning: Certainly. With regard to energy bills, as I mentioned earlier, we spent a lot of time doing a thorough review about what longterm support could look like. That has been a long-term project that we kicked off last June, with the Social Market Foundation and Public First, attempting to look at the issue of exactly what energy support should look like. If it is useful, I can give you some emerging thoughts on that. The full report will come out in the next couple of weeks, and we will share it with the Committee.

We were attempting to build a consensus of what support should look like. We have run a series of polls, focus groups with consumers and roundtables with people from industry and politicians to try to establish what is the right thing to do. I think there is a consensus around the need to do something and the need for social tariffs, but there is a lack of consensus about what that means and how you target it, as you are suggesting.

Of the options that have emerged that have the most support, the first is to offer a fixed discount to bills. That is similar to the warm home discount that exists at the moment, only bigger and better, or probably broader and wider. It would need to be substantially bigger than the warm home discount, which is currently £150.

Our polling shows support from the general public and other stakeholders for providing discounts in the region of about a third of what bills are, so we have been modelling things on around £900 a household. That is one of the main options; you can apply that as a fixed-price discount. The alternative, which also has traction, is a discount to the unit rates. Those are the options that are polling best.

As you say, the question is then how to target that. Hopefully, it is relatively straightforward to target people on means-tested benefits and pensions, etc. What we are finding is that we should be able to target those in the most need quite well. As I said earlier, the issue is with low-income households that are not in receipt of benefits. We recognise that still remains a challenge.

My observation as we have gone through this process, when we are putting in short-term solutions, is that we will need extra data from the likes of HMRC. One of the key challenges is that we have an individual tax system, whereas we need data around household incomes to be able to target effectively, so the solution is likely to involve more data from more places.

One thing that will be interesting to explore is how we get ourselves into a better place, where we have the data, to allow us to target more. Although we have made excellent interventions to provide bill support, what has not been clear to me through the process is how we progress the need to get new data to allow us to do the targeting. Has that been progressing in the background as well? I have not seen any signs of that, so I am genuinely not sure. A worthwhile thing to explore is are we collecting that wholesale income data? Is that being worked on by Government? That is one of the triggers that will allow us to target more effectively.

Those are our two lead options: a fixed pounds discount or a fixed unit rate. We also accept the fact that we still have to crack the issue of targeting people who are not in the benefit system.



Q23 Sir Geoffrey Clifton-Brown: Before I ask any questions, I should draw attention to my Member's interests. I have a farming business that benefits from Government energy support schemes.

Ms Vyas, I would like to come back to you on Ms Morris's question about the whole energy supply chain, and the three critical elements: the provider, the supplier and the customer. If the market were working properly, you would expect that when the provider's prices were going up, the chain would benefit from that. On the other hand, energy is priced in international dollars, basically, so if you were a provider you would expect to be able to sell at world market prices. If one starts to alter this mechanism—the decoupling we have talked about—so that the suppliers have to share some of that profit, which they probably should, they are then not benefiting from a world price. How do you square that conundrum?

Dhara Vyas: I will try not to reiterate some of my previous responses, but I do think this is about how we remodel the electricity market as it is right now. It is not fit for purpose, because it is based on a fuel supply mix where it is predominantly fossil fuel. It is about how we carefully consider the options. Decoupling gas and electricity prices is a key one, but it is also about the direction of travel the Government wants to take when it comes to making sure we still attract the investment that we need. There are certain options, such as expanded and increased contracts for difference, which I think would be useful. I did refer to the fact that they are paying back already. That would bring prices down, too, so that is one model.

A lot of work is going into what the potential looks like, and the Business Department, which is now the Energy Security Department, has been consulting quite widely with industry and others on what a future model looks like. My main concern would be around how we rush something like this.

I am sorry to repeat what I have said, but there is something around the retail market model that is not working right now and that needs to dramatically change. It is a market that does not make any money. There is absolutely no incentive on energy suppliers right now to invest—whether that is investing in innovation for the future or in the customer service that is so desperately needed. They are perhaps getting 150% more calls than they were two or three years ago, because people are struggling and need help. Investing in all the things—whether that is more financial support, more customer service or any of that—needs a market that works. In particular, the retail part of the market is not working right now. More broadly, we need to modernise the electricity market.

Q24 Sir Geoffrey Clifton-Brown: Decoupling electricity and gas seems such an obvious thing to do. Are there are unintended consequences if you did that?

Dhara Vyas: I think it is the complexity of the current contract arrangements that would take time. It is also about what that means globally. As we talked about, America has the Inflation Reduction Act and Europe has its equivalent. That is having a huge impact on investment into this country. We know that potentially £500 billion of money that was earmarked for the UK might not be spent here, precisely for the reason that it is not as attractive—the payback is not as much in this country as it was. You are absolutely right, and it is an incredibly complex issue. I don't have a single answer, but I think it is about being more progressive and making decisions about what that future looks like.

Q25 Sir Geoffrey Clifton-Brown: Perhaps we could just come back to something you said, Kate Nicholls. The suppliers are the meat in the sandwich, but they have increased hugely their overhead parts—their standing charges and so on. How could the market be reformed so that they could actually make a sufficient profit that they would not have to pass on? At the very time when energy prices are going up, they are also imposing record increases in non-energy costs. How could the market be reformed so that that did not happen?

Kate Nicholls: I think that goes back to Ms Morris's question, because you have a regulatory environment that is disproportionately focused on domestic customers and does not really regulate the non-domestic, so you have had those elements of the market. I am not sure that the resources, capabilities or capacity within either the Business Department, which is now the Energy Security Department, or the regulator have been correctly focused on non-domestic customers and the business environment, so you would need to look at the regulatory model to make sure that those charges could be regulated properly, and to make sure that the balance of risk between all those three parties is accurately reflected. But you also fundamentally need to regulate to make sure there is transparency, clarity and justification provided for why those charges are imposed and increasing.

At the moment, as a customer, you have no clarity at all. All you see is that your bill comes through, and the Government says you are going to get a substantial reduction in your price, and then you see all the charges underneath that mean that you are not. There is no justification provided on the bills to be able to explain why the standing charge has changed overnight from one to another. There may very well be good reason, and there may be good justification, but there is no clarity or transparency, so the regulator needs to have the remit extended to provide oversight there, to make sure that there is justification and transparency being passed through so that customers know what is going on. Also, fundamentally, you need to get suppliers back into the marketplace and have an obligation to consult.

There is this blanket approach that says that hospitality is too risky a sector, or other sectors are too risky, and we are not going to quote. Yes, there are many more suppliers in the non-domestic environment; at the

moment, there are only about three that will willingly quote for hospitality business and, in most cases, when you go out to get a competitive quote, you are only able to get a quote from your current supplier because they are obligated to. So there is a role for the regulator there, but Ministers need to give the regulator the power and remit to be able to do that and we need to ensure that both the Government and the regulator hold suppliers' feet to the fire to ensure that those price increases are kept to a minimum—consistent with the need for all businesses and parts of the chain to make a profit and be viable.

Q26 Sir Geoffrey Clifton-Brown: Mr Manning, on standing charges and being able to swap suppliers, there are two things there. Swapping suppliers in the middle of this energy crisis was almost impossible. If you did actually try it, you probably got an enormously increased quote. On standing charges, albeit of course the energy prices were going up hugely, but there were lots of complaints that customers were being overcharged on their standing charges, particularly when you took the difference in usage between winter and summer into account. They were using lower amounts in the summer but still receiving the same standing charge.

Andy Manning: I will start with standing charges. We have internally reviewed standing charges, and I think we are broadly happy that they are cost-reflective. There are fixed costs across the industry. While there remains a choice between those fixed rates or putting them into unit rates, it leads to this problem that you are kind of choosing which consumers to support. There are plenty of customers in vulnerable circumstances who are high users, so if we are effectively moving recovery from fixed charges into unit rates, you end up in a position where people on lower-than-average usage will be better off and in a better position. I get that, but you are exposing customers in vulnerable circumstances who are high users to higher rates. That is another one of those difficult trade-offs.

If you look at elements of the standing charge, there is a possibility to look at elements that maybe should not be on energy bills at all; it would be more appropriate to recover them through taxation. That removes that problem about effectively favouring one set of customers in vulnerable circumstances over another. So we don't think there is a straightforward answer from within the energy industry.

As for the other part, the reason why it is dangerous to move things to unit rates is that we are moving into a new world where people will quite rightly be supported in being more flexible in how they use energy and in being able to manage their costs by having low-carbon technology that helps you avoid your bills, which is a good thing. If you move costs into the unit rates, people who are able to afford low-carbon technology will get a greater reward for being able to avoid the charges. That then puts more costs on everyone else, so I do not think it is a straightforward issue, unless there are elements you can move to taxation, which I think is more straightforward.



HOUSE OF COMMONS

In terms of switching, I think we are going to be moving into an interesting period where, as we have seen wholesale prices go down, we may see competition emerge again. Clearly, that is a good thing for consumers. That gives consumers a route to lower their costs. The interesting thing about the regulator's role is that, as we saw wholesale costs go down, the regulators introduced a market stabilisation charge, which effectively is a way of compensating suppliers if they lose customers because they have bought the energy at a higher price. Someone can come in and compete, because they have got the energy at a lower price. While there is a lot of sense in stabilising the market, that is deliberately choosing to dampen the signals for competition. Obviously, we have assessed that from the financial stability of suppliers, which we agree on, but whether there is the correct balance with the consumer benefit from being able to switch—whether that balance between supplier interests and consumer interests has been properly assessed in those sorts of decisions—we are not so sure.

Q27 Mr Djanogly: I would just like to go back; we were talking about decoupling and moving forward, but could I just step back to the existing suppliers market? We should keep in mind the old maxim that it is when the tide goes out that you see who is swimming with no clothes on. I think that some 30 suppliers have gone insolvent. If you take Bulb, it was 5% to 6% of the UK energy market, with 1.5 million customers, but what was interesting was that there was apparently a failure to hedge in line with Ofgem's price cap methodology. Ms Vyas, you were talking about the market needing to be changed, but to what extent is this actually about existing suppliers not doing the right thing and being greedy?

Dhara Vyas: I referred earlier to exactly the point you made about companies going out of business. That contributes to increased standing charges, because it is a fixed amount that goes on people's bills, so it has a really tangible impact.

Q28 Mr Djanogly: I was going to come on to that point, but now that you mention it, could you just explain the extent of the extra costs that it has meant for people?

Dhara Vyas: I think it is about £90 per household on the standing charge. Is that right, Andy?

Andy Manning: Yes.

Dhara Vyas: Thank you. In response to your question, it has been an extraordinary year. Consumer groups and the energy industry itself have been pointing out concerns about certain companies for many, many years. I used to work at Citizens Advice, and from the consumer point of view we were doing it. I know that Energy UK and predecessors in the trade association were pointing out the same concerns about the business practice of some suppliers in the market who were not financially resilient enough to weather exactly the storm that we have witnessed.

Q29 **Chair:** The counter-argument, of course, was that if you did not have freedom there would not have been the competition. So there was a bit of balance there, but obviously we saw an absolutely catastrophic failure.

Dhara Vyas: There is a bit of balance. It links to our earlier conversation and questions about switching. Yes, we are in a period with a market stabilisation charge; yes, you can ask questions about supplier interest versus consumer interest; but the reality is that suppliers buy energy ahead of use and ahead of need. That is how hedging works, and it is how we ensure continuous supply to homes in this country: we do not have regular blackouts, for those sorts of reasons. It is important that we have a steady, stable supply to households and businesses across the country.

Energy is an essential service. Never have I heard it talked about as it has been in the last 18 months, as a public good. That is because of the importance that it has in all our lives and livelihoods.

Q30 **Mr Djanogly:** Sorry, but people going bust is very worrying for customers.

Dhara Vyas: I think we were in a place where the market was predicated on switching as the only way to engage in the retail market. That is what drove that sort of behaviour, with companies that were newly licensed and perhaps did not really understand their obligations in an essential services market, which involve an awful lot of support for vulnerable customers, financial resilience and everything you need to do to be a well-performing company in this market. They are predominantly the ones that went out of business—mostly. Not all of them were in a bad financial position, but prices have been high.

I think it comes back to the future market argument, which relates to your question about how we can make the market more resilient. I do not think we can have a retail market that is predicated on switching as the only way that consumers engage with their energy company any more. I think it has to be about a lot more than just switching to a cheaper deal that perhaps is not well-priced or resilient or is run by a company that perhaps has not hedged well.

It is about how we encourage our market and how we redesign the retail market. We as a country are considering what the other options are. Do we want long-term, more meaningful relationships—things like more bundled products, tariffs and offers? Right now, the regulation just does not allow that sort of market to develop.

That comes back to the point about retail market reform. We need to change the relationship between companies and suppliers, and it needs to be built on trust. Perhaps that is something that we can come back to.

Q31 **Mr Djanogly:** Would anyone else like to comment on that?

Andy Manning: I have a few things to say. The standing charge is a good example of what I was talking about: elements of the standing charge may be more appropriate to have in taxation. If you add on the potential costs

of Bulb, again our preference would be for that to go through taxation rather than through bills.

Chair: We should say that we are not a Committee that makes policy on tax—happily for us, possibly.

Q32 Mr Djanogly: But we hear what you say.

Andy Manning: I agree that it is not in consumers' interests. We need to have a stable market so that it is not in the interests of suppliers to go bust. We have seen a series of decisions from the regulator that have tended to move either costs or risks to consumers from suppliers. The argument is generally about the financial resilience of suppliers, but there is more to consumer interests than that. We cannot just assume that supplier interests are the same as consumer interests; they are not.

I agree with Dhara that there has to be a change in how people engage in the market. Essentially, a lot of switching has been driven by hedging strategies. I do not think we want to return to that market.

Kate Nicholls: I will just make one final observation. There is a lot of discussion around the fact that the retail market is broken, and suppliers are making a loss, not a profit. That should not be an excuse to treat the non-domestic market less fairly or transparently and push some of the costs that you could be getting on to smaller businesses. There is also the broader point: the objectives that the Government had in setting up this scheme was for broader economic benefit so that the businesses had a viability. In protecting jobs, you are protecting business futures. You cannot decouple that entirely.

Q33 Mr Djanogly: I was interested to see in one of the responses from the Countryside Alliance—I represent a rural constituency, so this is an area of interest—the disproportionate impact on rural versus urban areas. It says, "The figures also indicated that while urban and rural areas both have a fuel poverty rate of 13.5 per cent, rural households in fuel poverty have a far higher fuel poverty gap...at £501, which is more than double that experienced by fuel-poor urban homes." Mr Manning, had you seen that? Would you agree?

Andy Manning: It is not an area I have looked at particularly, but I assume it is to do with consumption levels. Effectively, there will be a bigger gap because they are using more. If our assumption is right, I think that as we are designing enduring bill support and making sure that it reflects need, how much a household uses will be important as a general principle.

Mr Djanogly: Are wages part of it, do you think?

Chair: I think a number are possibly off grid as well. There could be a number of factors. It would be well worth looking at.

Q34 **Mr Djanogly:** I would be interested to know if you had any research on that. I know you have a rural side.

Andy Manning: I will look at what research we have.

Q35 **Mr Djanogly:** Thank you. The Association of Convenience Stores—perhaps this is one for Paul Wilson—says that roughly 7,000 stores are at risk of closure due to being stuck in excessive fixed-rate contracts, and that their closure will cost the Treasury £70 million annually in direct tax income. It has called for better Government support to the most vulnerable businesses, which it defines as those that signed energy contracts when wholesale energy prices were highest. Is that something you would agree with or that you have looked at?

Paul Wilson: Yes, I wholeheartedly agree. I think we have very similar asks in this space. Businesses, particularly small businesses, that signed up to a fixed tariff in the second half of last year—between July and December—perhaps did so because they knew it was a way to guarantee getting the maximum discount under the energy bill relief scheme. That was an incentive. Similarly to what Kate was saying, we were under the impression that small businesses would get some sort of preferential treatment in the successor scheme, but that did not turn out to be the case from April. A lot of those businesses will find themselves with their energy bills tripling.

We did an example of a pub that signed a fixed-tariff in August/September. It could see its bills going from £25,000 to £80,000 a year. That is what it is looking at. Customers cannot afford to pay more, so we think something needs to be done. That could be allowing those businesses to renegotiate those contracts, now that it is clear that prices are falling, or it could be the Government putting in place something that is a bit more similar to the EBRs, not the EBRs, for those small businesses. There were ways in which that could have been done. You could have got more support to small and more vulnerable businesses, even within a universal scheme by applying a higher discount to, say, the first 100,000 kWh that a business uses. That would have been a way to target. The trouble with the universal element of the energy bills discount scheme is that the discount is so small and is spread so thinly that it is just not going to make a difference to the really difficult decisions that some of those businesses face.

Q36 **Chair:** Have we done any work to see if that proposal for the discount for the first 1,000 kWh would be within the cost envelope the Government are trying to keep within?

Paul Wilson: I could not tell you off the top of my head what level of discount you could give, but obviously if you were only giving it to all businesses for their first 100,000 kWh or 200,000 kWh, say, it would get rid of all the extra consumption that much larger businesses have. In many cases, although not all, they arguably do not need that support so much, so it would allow for a higher discount for those that need it more.

Q37 Jill Mortimer: Ms Vyas, we have spoken a lot about the linkage to the wholesale gas price, and that that is why everything is so expensive—that is the maximum retail price. Is there anything in the regulatory framework that will stop the industry from charging less than this, or are they just charging out at that maximum price?

Dhara Vyas: I am so sorry, but could you repeat the question? I am not sure I follow.

Q38 Jill Mortimer: The marginal price of household gas is about the maximum permitted retail price. Is there anything in the regulatory framework to stop the industry charging less than that?

Dhara Vyas: No.

Andy Manning: No. On the wholesale side, there is no hard coding that everyone charges the marginal price. It is kind of like, “Why wouldn’t you?” If you know someone is going to pay it, you charge up to that. From a retail point of view, we are still at the point where the energy price guarantee is below the real price level, so there is not the room at the moment, but that may change.

Q39 Jill Mortimer: So are the suppliers charging the maximum and getting that in full?

Dhara Vyas: Yes. They have, I think, 80% of customers now on the default tariff cap, and then the energy price guarantee brings it down. So yes, the majority of customers are on the price cap tariff.

Q40 Jill Mortimer: So the Government are paying out the maximum amount, rather than them taking some of the cost by not charging up to that.

Dhara Vyas: I think it depends what tariff people choose to be on.

Andy Manning: Some will be on fixed tariffs, and there is an adjustment to that—the reconciliation of the Government’s bill—but I would say the majority will be on the energy price guarantee, because the costs are way above that.

Q41 Jill Mortimer: There were all these suppliers that went out of business. Sadly, I was a customer of one of those suppliers; I had a really good tariff and then suddenly I was on a massively high one, because it was the only one available when they went. Do you think that there has been a failure of the regulator to watch those businesses? Effectively, it has cost every household in the country £90. Is that a failure of the regulator to enforce proper regulation and oversight for those companies?

Dhara Vyas: Yes, I think it was. Over the last 18 months, the regulator has done an awful lot to try to address that, but it has meant trying to address it from a regulatory perspective in a market that has been changing at an incredibly fast pace, with higher prices than ever seen before. The blunt answer to your question is that yes, it was a regulatory

failure, but a lot has been put in place to try to avoid those circumstances ever happening again.

Andy Manning: I agree entirely. The balance of risk has been completely wrong. Suppliers have been able to fail, and then essentially it is customers who end up picking up the bill. As Dhara says, often we are moving towards better capitalised suppliers, but it is going at pace, so we need to do it carefully.

Dhara Vyas: What it means is that we are going to have a differently shaped market again. We are going to have another iteration where we have a very different market.

Many of you will remember that we used to have what we called the big six. After the CMA intervention in, I think, 2016, there was a huge proliferation of lots of different suppliers, because the onus and incentive were always about how you could switch based on the best possible price available.

That brings me back to my earlier point. I think the market has contracted again. There are questions to be asked about what the right level is and how many companies are able to perform well in this market. The question whether these companies can make a profit from retail domestic supply remains. That is an interesting and important question for the Government to consider in some detail, because we need a retail market that is attractive to investment, but right now it just is not.

Andy Manning: We support better capitalised suppliers, but there is one issue that we are not quite sure works. Originally Ofgem was thinking about ringfencing customer credit balances: suppliers would have to have it separated in their accounts, so that if they did go bust it was protected. Ofgem has ended up moving to an approach that is more targeted: it will monitor supplier resilience and, if it sees an issue, then step in to insist on credit balancing. That approach can work, but it relies on effective monitoring and enforcement. There is not a huge amount of evidence or a strong track record of that being the case, so we still see some risks around credit balances, because it relies on the enforcement-monitoring approach.

Q42 Jill Mortimer: I will stay with you, Mr Manning. You spoke a lot about vouchers not being received and the problems with prepayment meters. That is something I see a lot in my mailbox in Hartlepool. We find that people are getting forced on to prepayment meters and things, and when they go on to them, that is a really high tariff. Is it inequitable for the companies to do that? If people are forced on to, or are on prepayment meters, they should be on the lowest tariff, because they are the people who have been struggling the most and ended up in that position.

Andy Manning: It is perfectly reasonable to look at the differentials. The differential works in two ways. There is the year cost, which is about £80 currently—the differential over a year. However, if we look at the winter

months, the other thing we have to take into account—I know it is obvious, but direct debit naturally smooths it out—is that people are paying as they go. We should certainly look at those first aspects.

I will not go into too much technical detail, but there is an industry change around at the moment to do with how gas costs are allocated, which might deal with a fair proportion of that £80. That is good news. But pay-as-you-go has that fundamental shape to it, so it is about making sure that we have the right safeguards for who is on prepayment meters. Is that appropriate for them? If not, switch them back to credit meters.

We are concerned. Clearly we have the moratorium on forced installation of prepayments at the moment, but that is due to expire at the end of March. However, remember what we talked about earlier: the end of March is also when the support schemes fall away. So, it is a real crunch point when we get to 1 April as the support falls away and moratorium stopping forced installation ends.

Jill Mortimer: You foresee a lot of problems arising.

Andy Manning: That is a concern.

Q43 Jill Mortimer: Ms Nicholls, you were talking about a failure rate among businesses of about 5%. What would that normally look like?

Kate Nicholls: In a normal year, we obviously have a proportion of business failures, but there is a net closure rate that takes account of new openings and new businesses coming into the market. Over the past decade, that has averaged about 1% to 2% year on year.

Q44 Jill Mortimer: Have you seen a significant effect on new start-ups and people just not even trying in the current market?

Kate Nicholls: Yes, we have not got new openings; it is not just the new start-ups and new businesses that are coming in as small entrepreneurs, but also the larger businesses are not opening new sites. If there were a small business failure at one site, we might well find that a bigger chain would take up that site, and invest and expand, but we are also seeing that the entrepreneurial companies that were generating the large growth by going from two sites to 10 to 20 are not opening new sites at all. It is the larger companies too. It is an inability to invest; it is not about attracting investment, but about the inability to invest at the moment.

Q45 Jill Mortimer: The thing I have heard from a lot of my hospitality companies—I have a large proportion in Hartlepool—is that they were forced into taking new, fixed-price contracts in the midst of all this. They bought in on a rising market, and now they will be stuck there in a falling market. Do you think that we should be looking at a way of helping businesses getting out of those contracts, or to adjust them to a more equitable one?

Kate Nicholls: I would echo entirely what Paul said earlier—half of hospitality businesses across the UK took out a contract between July and December. In quarter 3, the average price was 51p; in quarter 4, it was 63p per kWh. That is at the peak of the market. Because of the way the scheme was designed, if you were on a fixed contract, the Government picked up all the rest of the cost, so there was no incentive to suppliers to offer a lower price into the market. If you remained on variable terms, you were capped, so there was an incentive for smaller businesses, in particular, to take out a fixed contract. Usually those were 12 months, so we have a 12-month problem coming through.

A large number of suppliers broke contracts that they had with customers. In a rising market when costs were increasing, they broke contracts and said they wanted to increase costs. We would encourage suppliers to act pragmatically and, where they can, try to renegotiate those contracts post April. That will keep prices lower, get pass-through happening quicker and maintain business viability. You also have large security deposits, so the risk of debt is far less. It is not the same as the credit we were talking about with consumers and the retail market. In the non-domestic market, you have a security deposit if the worst happens. There is much more that could be done to encourage that, and that would also have a downward impact on inflation.

Q46 Jill Mortimer: I have also heard from a lot of my businesses that great mistakes were made during this time. Clearly, it was a very volatile, dynamic time for pricing and things. I had reports from businesses that found they had been significantly overcharged when things were looked into. In the meanwhile, businesses were forced into closure because they could not pay their bill, but they found out later that they had been overcharged. Is that something that you have seen a lot of?

Kate Nicholls: Fortunately, that is a small minority of cases, but yes, it has happened. It particularly ends up being in the independent sector. It ties in with the large security deposit that you are required to pay up front before you can get a contract. If you do not have access to that working capital or reserve, you cannot get a contract. If you cannot get a contract, as Ms Morris said, you cannot open, because your fridges do not work, your heat doesn't work, your lights do not work, you cannot cook anything and you cannot power your beer pumps. It becomes a very fundamental and overnight business decision.

Q47 Jill Mortimer: So again, this is something where the regulators should be looking to step in.

Kate Nicholls: It is certainly something on which the regulators should have greater discretion and powers. It should have greater attention.

Q48 Jill Mortimer: Finally for you, Mr Wilson, do you feel that the Government did all it could to educate people about what was available? I spent a lot of my time as an MP going round talking to small businesses and trying to



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put them in touch with what help there was. Sometimes it was hard for even my team to understand the scheme and how it worked. Do you think enough was done to help people in that situation?

Paul Wilson: The energy bill relief scheme was very complicated. I understand the reasons why, and I think that helped ensure that the money was not being given to businesses that were on tariffs below the levels at which they would need the money. I think there were good reasons for why it was as complicated as it was. In the short period between the political decisions being taken to go ahead with the scheme and designing it, BEIS did what they could to communicate with us, and they were helpful in trying to help bodies like the FSB to understand the scheme, so that we could then help our members understand the scheme.

That said, the feedback from members is that it is still very difficult to interrogate your bill in some cases; in other cases, less so. Different suppliers are clearly performing at variable levels. I am worried that there will be cases where businesses have not got the discount they are entitled to and may have no idea that that is the case. The efforts from Government were good, but that is something worth looking at.

Q49 Jill Mortimer: Do you think that, because they had such a rapid response, you were inevitably going to get these teething problems? Are

these all lessons that can be learned for the future?

Paul Wilson: To a degree, that is right. Obviously, we have known about the difficulties that the business community was having for a long time before the decision was taken to go ahead with EBRs. There is a question about whether that could have been looked into earlier so that they were not in such a rush in designing and delivering the scheme. That is perhaps more of a political thing than a delivery thing. That is the only other thing I would say. I think that, in the time that they had, the comms were reasonable to the business community.

Kate Nicholls: Very briefly, the consultation that was had with the Government, the support and the information that flowed through to the business community to cascade out—good. The information coming through from suppliers to their individual customers—very patchy, very variable; some was really bad. You had an awful lot of information coming through from suppliers saying, “We don’t have information, and we’re waiting for the legislation to go through.” Quite frankly, there was a lot out there, and suppliers could have done more to communicate with their business customers.

The second point that I would make is that Paul is right that if you think the discount has not been correctly applied, it is difficult to find out who you go to and what you do. If you go to the business Department, they say, “It is Ofgem.” If you go to Ofgem, you do not always get a clear-cut answer. There is more that could be done there, similarly to the way that you have resources available so that domestic consumers can know what

to do, and Ofgem takes a proactive role in monitoring that. At the moment, Ofgem relies on complaints coming from the business, so if the business does not necessarily know where to go and what to do, I am not sure it is getting them. It is heavily reliant on us giving it examples and case studies; it is not going out and finding them itself.

Dhara Vyas: Ms Nicholls has mentioned some of the things I was going to say. If you look back at the EBRs, the original business support scheme, there was certainly a period when there was confusion for energy suppliers about whether that conversation was being had with the Treasury or with the Business Department. There was delayed communication from the Government to suppliers about the design and mechanism of the scheme. That led to some delays with secondary legislation, which made it much harder to administer. Without being in the room, that conversation took a while to happen. I give credit to the officials, who were working incredibly hard to put it in place, but it was being done at breakneck speed.

What I would also say is that the non-domestic energy suppliers we represent are certainly talking to Ofgem and others about what the future looks like and whether there is potential to explore more things like codes of conduct, security deposits and the communication angles. It has been discussed, but I would like to reiterate that it is a much more complex market in the non-domestic space. The risk inherent in buying huge volumes of energy means that that has to be underpinned with things like security deposits to give suppliers confidence to operate in that market.

Q50 Sir Geoffrey Clifton-Brown: On a point of clarification, Mr Manning, could I go back to your answer to Ms Mortimer concerning credit balances? In the case of Bulb, the regulator protected all the credit balances. Is that not automatically the case if any supplier companies go bankrupt?

Andy Manning: It is, absolutely. The point I was making was about whether the companies themselves have to ringfence the money. You are quite right that from a customer point of view the credit balances are secure, but it is about where that money comes from. If the company is also ringfencing the money, that means that if it then goes bust, the money is sitting there ready for the consumers. Otherwise, it is all of us who have to fund it.

Q51 Sir Geoffrey Clifton-Brown: That is really helpful. Could I go on to a different subject and follow up on some of Mr Djanogly's questions? Quite a high proportion of my constituents are off-grid customers. Although the Government doubled the amount from £100 to £200, that still seems fairly inequitable for them compared with customers who were either on the grid or being helped with their electricity bills. Do you have a view on that?

Andy Manning: I do not have a firm view, to be honest. It is not something that I have considered in great detail, but it is a reasonable point that people's support should meet their need. You are right: they will

have got the part that is linked to electricity. The EBSS went through electricity bills, didn't it?

Sir Geoffrey Clifton-Brown: Yes.

Andy Manning: So I can certainly see that there is potential for people's needs being less met, yes.

Q52 Sir Geoffrey Clifton-Brown: That brings me on to my next question. It did go through electricity bills; do you know whether all those payments have been made, particularly to people who neither the Government nor the electricity companies would know are off-grid customers?

Andy Manning: As I said earlier, if you are a direct debit customer or on smart prepay, it has all worked very effectively—it got to where it needed to go. At the end of December, 71% of vouchers had been redeemed for the traditional prepay, so that is where the issues lie. That is backed up by the evidence that we get: the majority of queries we get are about not having received the vouchers, which leads on to problems with ensuring that people can contact suppliers and get them reissued. There are myriad problems there. Contact details can be incorrect, but often people really need a contact to get to the bottom of the problem. We have case studies of people having to wait for an hour to get through to suppliers. The issues we get are very variable between different suppliers, so we do not think it is necessarily something systemic. That is where we are: at the end of December, 71% of prepayment vouchers had been redeemed.

Q53 Sir Geoffrey Clifton-Brown: Sorry, Chair, I am straying on to your question. Is there a need for Government to take further action on these voucher problems?

Andy Manning: The good part is, and the data shows this, the information campaigns. We are really pleased that the Government have been involved with them. Ourselves and Energy UK have been part of improving that information campaign. Our queries about advice and information to do with EBSS have decreased markedly since it came in. In October, we had lots of people contacting us, saying, "We have heard about this scheme. What is it? We don't know anything else." The campaign has definitely helped with that, but we need to keep on that, with particular reference to the digitally excluded. We know one in 20 people do not have the internet, and roughly one in 10 do not have some of the essential skills to engage digitally, so we need to ensure that the offline methods are also properly focused on in delivering these messages.

Q54 Sir Geoffrey Clifton-Brown: There are two parts to this: one is the customer knowledge needed to claim the voucher, and the other is the electricity supplier problems with actually issuing and processing the vouchers. What more could the regulator do to help with those problems?

Dhara Vyas: In terms of the updated figures, 99% have been delivered. The problem is the redemption, so 76% of vouchers have been redeemed.



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It is important to think about the context here—not that this is not a very real problem. There are fewer and fewer people on a traditional prepayment meter. The delivery of this scheme is far easier to people on prepay who have a smart meter, so that is something to bear in mind.

On redemption, suppliers are using the full range of communications that they can. We often find with traditional prepayment meter customers—our members—that it is very hard to know who is living in that home. For a lot of people, it is transient. They move in and out of homes. The details are not necessarily updated. If they have the key, they just go to the newsagent and update it and things like that, so it is much harder to know who to address the voucher to. A lot of people do not open their post because they are worried about bills and things like that. What we have been doing, as Andy said, is working with Citizens Advice and the Post Office on how to encourage people to open and then claim that voucher. I think it is brilliant that Government have recently been talking quite actively about supporting that as well, because it has to be a real joint effort. There are multiple reasons that people are not—

Q55 Chair: Do you mean different coloured envelopes, like our vaccine information came in a blue envelope?

Dhara Vyas: Possibly. There is something around how we communicate jointly to encourage people to redeem the voucher, because the problem is not necessarily in its delivery—although, as was pointed out, there are issues around reissuing and companies working in different ways. It is about that next step on how you actually claim the money.

Q56 Chair: I have a lot of customers on prepay meters getting vouchers. When we have approached companies where there has been a problem,

it has—hats off—usually been sorted pretty quickly. It is not the companies that are the issue. Inevitably, there have been some errors along the way, but when this has been raised with the companies, they have provided it. That is one little positive from the Committee on companies.

Can I go back to you, Ms Nicholls? I am proud to represent the George & Vulture pub in Hoxton, which is an amazing business that took over derelict premises 17 years ago. It employs 28 full-time staff and has 60 part-timers throughout the year. It has been transformed and is a valuable local resource. It is a classic example of these challenges. Their electricity bill rose from £18,000 a year to about £46,000 a year in May last year, but they have been quoted and estimated £175,000 when they renew in May this year.

With energy prices dropping, I am hopeful and they are hopeful that that will drop a bit, but if you add to that their business rate increase, which has tripled, and rent going up, they estimate that, from May this year, if all those figures crystallise at that high level, they would have to charge £18 a pint to cover their rising costs. That is clearly not feasible. I am



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very worried about pubs in my area. You touched on some of that, and I wonder whether you want to expand on that.

Also, and I will come back to Ms Vyas on this, you said in your opening remarks that businesses are seen as risky, so prices are higher. Ms Vyas just commented on that earlier. It seems unreasonable to me that a pub this well-run and long-standing is seen as riskier than businesses in other sectors. I wonder if you could expand on that. There are other examples like the George & Vulture. I also represent the Brewhouse & Kitchen, which is a chain but has a premises in Hoxton as well.

Kate Nicholls: Yes, and this is not exclusive to pubs; this is across hospitality. When we go out to our members, we regularly get reports about the ability to get a contract or to have somebody to quote. The response will come back that this is a sector that they consider to be too much at risk, and they will not quote. This is a sector that they do not want to get involved in: "The customer is not within the sectors we are taking on at the moment."

Q57 Chair: I think it was a shock to us all when all of this hit. We had no idea how badly treated small businesses were.

Kate Nicholls: Yes, and there is a particularly acute problem with hospitality. It is singled out as a sector that is seen as disproportionately risky versus the rest of the business community, and you will see that when you come through. Comparable premises on a high street that are in one sector will be quoted one amount, and you will have a premium almost built in because it is hospitality, if you are willing to give a quote for that. I think that there is a need to work more closely, and we have been working with Energy UK as we have come out of the covid pandemic.

Q58 Chair: Why would they say it is risky? Some of these are long-standing businesses. The other pressures on them are about other bills, but they can certainly pay their energy bills, mostly.

Kate Nicholls: They can, and they have given a large security deposit.

Q59 Chair: And you gave us the figures for failures earlier. It was 5% last year, which is much higher than usual. Actually, that is not a high failure rate.

Kate Nicholls: No, and if you go back to pre-pandemic, the sector was growing 5% year on year, you were opening a large number of new premises, you were generating one in six of net new jobs, and the revenue was up at around £130 billion for the whole of the year before covid hit—that is bigger than aerospace, automotives and pharmaceuticals put together. It is quite large.

Chair: You have made your point. Ms Vyas is listening, and she can come back in a minute.

Kate Nicholls: There is arguably more chance of an energy supplier going bust than some of my members.

Chair: Touché!

Kate Nicholls: But the security deposits are still quite high, so there is this challenge. You undoubtedly have the issue of covid, and you cannot set aside the fact that the sector was hit hard by covid and hit first. It was closed down and unable to trade, so you do have an inherent risk element there, but there is this idea of a blanket risk that you are applying sectorwide, irrespective of the trading performance of the business, size and scale.

It is just a general blanket approach, so some of my largest companies and multinational businesses get the same response: "We do not quote for hospitality. You are in a sector that we don't consider to be a relevant risk." There is always the ability for a supplier to choose not to supply or not to quote, but they should not blanket apply that without any clear justification. That is something that we have been trying to work on with Energy UK and the regulator in order to understand how we de-risk the sector. I think it is also something that could be done in conjunction with the Government to try to explain that the sector is no more inherently risky, just because of what we have gone through with covid, than the rest of the economy. But that is a collective challenge that needs addressing.

Q60 **Chair:** Mr Wilson, there must be some other businesses that are considered risky across the wider small business sector.

Paul Wilson: That is right, and we have heard a lot of examples from the hospitality sector, so Kate is completely correct. I can give you other examples, such as launderette businesses. A well-run launderette, which had no problem with its credit history and was trying to get a new contract, was asked for a £16,000 deposit. I think I am right in saying that its current supplier was asking for that deposit.

Chair: And they had not defaulted or anything.

Paul Wilson: No. There were no payment problems in the past that I am aware of.

Q61 **Chair:** Was that a covid risk? Obviously, you could not use a launderette during covid. Why are launderettes seen as risky?

Paul Wilson: I cannot speak to that. To a degree, small businesses receive this sort of treatment quite a lot—not just within the energy market, but when they are applying for finance. There is always the danger of: "Well, let's not take the time to understand that business and its risk; let's just make sure we are protected" when they are giving a loan, agreeing an energy contract or whatever it might be. It is something that small businesses have had to cope with for a long, long time.

Q62 **Chair:** Due diligence is one thing. Ms Vyas, why are your members being so hard on some of these small businesses, particularly in hospitality?

Dhara Vyas: We have talked about complexity and risk, so I will not repeat those points. One of the sorts of examples that a lot of our members would give is that, if you have three businesses—a pub, a nursery and a hairdressers with the same footprint and the same energy use—a very different level of risk is applied to each of those because of the business. But to your point about understanding different markets, I come back to what I was saying before. We are working with energy suppliers and business trade associations, because there is a need to better understand the markets that they are supplying. We should be cautious about any attempts to pick up the sorts of approaches in the domestic space and put them in the non-domestic space, because they are inherently different.

Q63 **Chair:** I don't think anyone was suggesting that; it is just this blanket approach to assistance—

Dhara Vyas: No, but it is about dissecting the blanket approach, if there is a blanket approach, and making sure we understand the different segments of the market. Some of the work we are doing with trade associations and with Ofgem is on basic things, such as better communication around pricing, but also better understanding of business models and risk.

Q64 **Chair:** Better communications? With the level of price increase that I just quoted at the George & Vulture, you can communicate as much as you want, but it does not make a difference. It is all very well having all these talks with Whitehall and we know things take a cut, but I have businesses right now facing huge energy hikes and I cannot see how they can survive. I hope they do survive, but I don't know how because even in Shoreditch, £18 a pint doesn't cut it. Let's not joke about it; it is a serious point. You are having all these talks, but they will not help anybody this year and we are going to see a real crunch point at the end of March.

Dhara Vyas: No, but unless this is done with some caution and a proper conversation, you will find that there are fewer and fewer suppliers willing to supply in this market.

Q65 **Chair:** We have had conversations about the energy market for some time. We know the big six move the competition and those failures were predicted before they happened; we have done a fair bit of previous work on that as a Committee, so why are we discussing where the failure is only now? I will come back to other witnesses about whether Government should have been more alert to this knowledge of the sector, but your members knew the sector that they were supplying before covid and before energy prices went up, so who was asleep on the job? Where were the gaps in understanding sectors and the devastating impact these price hikes will have?

Dhara Vyas: There is no duty to supply in the non-domestic sector in the way there is in the domestic sector, so to your question about who is to pick up the bill, I think the energy companies are basing their decisions on

the tools that are available to them and they are building in the risk as it is based on their understanding. We need to come back to the conversation about how we understand better so we can tailor, but also to ask whether we need a bigger conversation about security deposits. Security deposits are really normal in lots of different industries and businesses; the question is how proportionate they are and things like that. We need to come back to that in continuing these conversations, and also think about how they work in relation to the energy bill discount scheme that is coming.

Q66 Chair: Before we move on from this point, Mr Wilson and Ms Nicholls, do you think the Government understood your business sectors? We learnt during covid that there were lots of bits of Government, including the Department for Business, that had a revelatory understanding of sectors that they were responsible for that they had not had to the same degree before. Do you think they really understand the pressures? These schemes were set up at pace, and we congratulate them for getting them out there, but did they really understand what they were doing? Where are the gaps in knowledge, Mr Wilson?

Paul Wilson: We have been having conversations with what was BEIS and with the Treasury for a long time about the problems, and we got the impression that there was a good level of understanding. In terms of resources and broader attention, it is understandable that so much attention is on households but that has, to a degree, meant that insufficient resource, time and attention is paid to the needs of the business community. You have to look at the balance of the impact of the regulation you have got; I agree with that.

Looking forward, in terms of the resourcing in the new Department for Energy Security and Net Zero, clearly the needs of the business community will require a little bit more resource than perhaps it has in the past.

Kate Nicholls: I agree entirely with that. There was a good understanding of our sector, its dynamics and cost pressures, but there was a failure to understand how game-changing an energy price increase could be. There was an assumption that it would act in the same way as with domestic customers—you can see that coming through in the NAO Report—in that people would build up debt and they wouldn't be able to pay, or they would turn off electricity or gas. There was a failure to understand that, in the example you gave from your constituency, Chair, you cannot just put prices up. You can't do anything else and therefore you are going to fold that business. So I do not think there was a sufficient understanding of the game-changing nature of energy price increases going through.

Certainly, as I think I said earlier, the resources, the capability and the capacity were focused on domestic consumers, quite rightly. Energy suppliers and then businesses came in third and last when we were going through it, both in the regulatory environment but also within Whitehall.

The final point is that there was an assumption that the intervention in the market would bring suppliers back into the market with a competitive set of quotes; that prices would start to fall and business customers would therefore be protected and be able to transition within six months. I do not think that that has come to pass. Actually, what you have seen is that prices have remained high because the Government top-up is there.

One final observation is about pace and urgency. For businesses such as the one in your constituency that you mentioned, there is a decision and a cliff edge in April. We need to have pace and urgency both from Government and Ministers and from the regulator, so that we get some solutions on the table to some of these intractable problems before that energy support tapers. If we cannot have that, you need to extend some of that support.

Q67 Chair: Do you think that they have understood the interaction with business rates? Obviously, rents will have a cycle that no one can monitor across businesses, but business rate increases can be tracked more readily. There will be a triple whammy for businesses.

Kate Nicholls: We have also had unprecedented business rate support for the last three years for the smallest businesses in hospitality. You have 75% this year; it was 50% last year. But it is capped, so any business that has more than three sites is not getting that 75% business rates discount. I think there is a good understanding. The team at BEIS has the hospitality unit, you have a team in DEFRA and you have a team in DCMS. The officials have worked incredibly hard. We did a lot of work.

Q68 Chair: Do you think they are working well together? Now we have seen a departmental split, so Business is one Department and Energy is another.

Kate Nicholls: That is slightly my concern, because the Business Department was working hand in glove with the energy team, and lots of colleagues were on secondment as well. There was an awful lot of engagement and discussion between September and December at a business and official level. There was less engagement at a ministerial level, but there was good engagement at an official level. The thing that they now understand that they did not before is that the level of increase that we were seeing meant that energy costs in our sector—in hospitality—went from being the fourth largest cost centre to the second.

They went from 5% of average turnover per site to 15%, which is more than rent and rates combined. After labour, it is the second biggest cost. If you cannot pay the bill, you have no choice but to turn the lights off—literally.

Q69 Chair: There is another business in my constituency. I said, "Oh, I see you are doing pizzas now." They said, "No, we've turned the oven off, because we can't afford to run it." Those businesses just make less profit, even if they survive.



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I want to very quickly whip through some issues and bring colleagues back in. On the messaging, Nesta gave us some evidence: eight out of 10 people had heard of the energy price cap—this is domestic consumers—but only one in 10 understood it in detail. Mr Manning and Ms Vyas, you were saying that the messaging had been quite good. We will have witnesses from Government in front of us. Are there any lessons to be learnt about how the messaging has gone for domestic customers? Businesses have their own routes to get information, so the question is really about domestic customers.

Andy Manning: The one thing I would pick out about the energy price guarantee is that, when it came in, we realised that there was confusion about what exactly was being guaranteed—was it your energy bill, or was it your rates? I would highlight that as somewhere there clearly was confusion.

Chair: Yes, it got lost in translation, and then the summary rather overplayed what was being offered.

Andy Manning: I think so. That is the issue I would highlight.

Q70 **Chair:** Other evidence that we have had, from Professor Fetzer of the University of Warwick and from Policy Exchange, highlights that this blanket approach has benefited wealthier households more because they use more energy. Obviously, we have looked at this before. Having a simple approach is quick for Government to do; it meant the help got out quickly. It was a bit like covid solutions—sometimes that blanket approach can have its benefits. But from your point of view, Mr Manning—you touched a bit earlier on some of the most difficult-to-reach households—what would you want from Government to support those households going forward? What would be your key one or two asks, when we talk to them on Monday?

Andy Manning: It is a commitment to providing targeted support at a level that will make a difference—our polling shows around 30% of bills, or around £900. Then we also need to make sure that we crack the challenge of targeting beyond those on benefits and pensions.

Q71 **Chair:** Have you looked at shared heat networks? I should declare an interest: I have a shared heat network, though I seem to be getting my own individual bills. Most users of shared heat networks do not get the vouchers, because of the way they are operated. Have you looked at that at all?

Andy Manning: Not in great detail. As you will know, this is not yet a regulated sector. We recognise that some steps were taken to try to give those customers the same support, but that has not got through to all customers, so we would certainly support a review of that.

Chair: Another slow bit of the system.



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I am looking at my notes just to pick up on anything else. Yes, I wanted to go through all of you individually, unless any Members want to come back in on anything. Mr Grant does. I will come back to you all at the end just to ask what couple of things you think we should ask the Government on Monday. You have given us a pretty clear idea, but if there is anything you want to add, you will be able to do so. I will go now to Mr Grant and then to Ms Morris.

Q72 Peter Grant: Ms Vyas, could I ask you a question similar to one that was asked of Mr Wilson and Ms Nicholls earlier? It's the one about how well prepared we were for this. It seems to me that there were warnings for a long time that there was going to be a big mismatch between energy production, energy import and energy consumption in the UK. Was there more that the Government could reasonably have done to be better prepared for the shock, even though they maybe did not know that the shock was going to come from an illegal invasion of Ukraine? Did we need to be running around at the last minute trying to take emergency measures, or could more have been done to reform the way the market operated before the real crisis hit us?

Dhara Vyas: Yes, I think we could have been doing more; Government could have been doing more. If we remind ourselves of when this came in, it was after a period of change in leadership. The political upheaval during that period could arguably have contributed to the delay and then the knock-on effect of needing to work at incredible speed to get something out that was universal because that was the most straightforward way to protect the majority of households that needed it. The short answer is yes, I think we could have been more prepared. We were calling on Government to intervene for a very long time before the intervention came.

Q73 Peter Grant: You have previously mentioned the fact that we need to look again at the entire way the energy supply system is structured. Do we need to look at the equitability of where the money lies within that system? I think most people will struggle to understand how you can have retailers going bust because they cannot sell energy at a cost that customers can afford, while the people at the top of the tree—the big multinationals—are reporting profits that they would not have dared to dream about last year. Is part of the problem the fact that the profits all seem to go to the top of the tree and all the costs get pushed down to the retailers and thereby either on to the customers or, in this case, on to the Government?

Dhara Vyas: The short answer is yes, I think we need to try to make sure that we are better able to explain why the market is the way it is and how it could potentially look in the future. I think there is a bigger question to be answered, because we also represent power generators—85% of power generation.

Peter Grant: I appreciate that you have a difficult answer to give there.



Dhara Vyas: I think there is a bigger question about what sort of market we want and how we attract the investment, and there is no one blunt tool. And there is a question about whether we think we shouldn't be making profit in the power generation space. So that is a much bigger question, but yes, it is important that people understand why you see profits being made in one place and companies going out of business in another. It is about the market design. I think that it is important to acknowledge and understand that. The energy industry employs millions of people, and it invests in skills in this country as well; and we should maintain our place as a world leader when it comes to clean energy generation. So this is about reconsidering electricity market design alongside retail market reform, to ensure that people get the best, and the best value for money as well.

Q74 Anne Marie Morris: Ms Vyas, I am going to ask you this question, because I am not entirely convinced that the other three will have much to say. It is about public sector organisations. In our economy, they are actually quite big players and they use quite a lot of energy, one way or another. The way the Government have treated them is to lump them in with businesses, and while I think we have concluded that much of what has been done for businesses does not quite hit the mark—for all sorts of reasons, which I won't rehearse—the public sector is in almost a worse position. For a typical academy trust, there are so many kids who need to be educated, there is food that has to be heated and there are buildings that have to be heated, so there is zero flex in what you do, yet your support comes from the same scheme that applies to businesses, which have at least some flex in what they do. Do you think it is right that the public sector has been lumped in with businesses, or should there in fact be a separate scheme?

I have in my area an academy trust that has followed the Government scheme in terms of working out a new contract, and it is going to have an 800% increase. That just seems ridiculous and unaffordable. I cannot see any other pot of money coming forward to help schools and the public sector more widely—I am sure the same will be true for hospitals, and so on—to help them with that cost.

Dhara Vyas: There are two parts to the answer. First, I think there is a reason why the public sector and businesses have been put together. It is because of user profile. The history of the way that energy suppliers have interacted with the public sector has been via the same sort of mechanisms that you use for business.

The second part is that I am also a school governor, and I have seen the bills and the way that they have been changing. It is terrifying; I have a

lot of sympathy for your point. I think there is a bigger question, and I am sorry I cannot answer it, around whether the design of the market should change to specifically look at the way the public sector uses and accesses energy supply, but that is not a question I can answer.

Q75 Anne Marie Morris: Thank you. I doubt the other three have any thoughts on the public sector—if you have, fire away. Ms Nicholls and Mr Wilson, it seems that many of the fixes that you need are actually quite long term; they are structural, in terms of how the regulator operates and how the energy sector itself operates. However, we are going to come to crunch time come the spring. Given that many of those longterm things can't be fixed come March or April, what could Government do to ensure that businesses are properly protected? Otherwise, what was the point of all the help that we provided during covid? Perhaps Mr Wilson first, and then Ms Nicholls.

Paul Wilson: I will draw attention to two things in the short term. One is that the cohort who negotiated their contracts between July and December should be allowed to renegotiate, or should be provided with some other form of support to smooth off the impact of what is probably an unaffordable tariff that they are going to be hit with.

The other is around energy efficiency. About one in six small businesses managed to invest in energy efficiency as part of their approach to mitigating these price increases, but 8% had to cancel energy efficiency investments because they were just paying bills, basically. If the Government could provide a targeted support scheme for small businesses to help them to understand their energy use and invest in energy efficiency, that would leave them much better prepared to weather these storms in the longer term. We have called for something called a "help to green" scheme—call it what you will—that would do that. If something like that could be announced in the Budget, that would be an amazing opportunity.

Chair: You've made a good pitch.

Q76 Anne Marie Morris: Ms Nicholls?

Kate Nicholls: I would echo that. You have this cliff edge coming in April for those who were forced to contract at higher rates. Allowing those people to renegotiate their rates or to come off and try to get a different contract to bring the prices down would be immeasurably helpful. It is particularly for that cohort; as I say, 50% of the hospitality sector took on a contract between July and December, while a further quarter were April to July and faced quite high increases. That would be a significant step forward.

Q77 Chair: What needs to be done, though, for that to happen? If the Government just say it has to happen, is that enough?

Kate Nicholls *indicated assent.*

Chair: There we go—a nice simple one for the Chancellor.

Kate Nicholls: Essentially. This is about contracts, so it would require Government leverage to put pressure on suppliers to do the right thing and come to the table and talk, to see if we can get some renegotiation,



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because it is about a contract that is in place between two parties. I do not want to underplay the challenges involved in that—it is not simple—but there should surely be some pragmatism that we can go forward. Ultimately, for the energy companies, which is better: to continue having as a customer a vibrant, dynamic pub in Hoxton, as you were quoting, or some brilliant hospitality businesses in the south-west—they provide tax revenue, use a continued amount of supply and pay a security deposit—or to have those businesses go bust?

Chair: Ms Vyas?

Dhara Vyas: That is a good question. I think that you are right; it will not be fixed by a straightforward Government intervention. There is a live conversation about what a fix-and-slide contract might look like. Some contracts do have a break clause built in—I may be using the wrong language—like you might have with a tenancy, for example. I think there is an opportunity to explore what that might look like. But, as my colleague said, it is definitely a contractual relationship that needs to be talked about. Often, in the business supply, it is all about that case-by-case look at what is happening.

Kate Nicholls: Obviously, there is usually an element of risk if you are talking about these decisions. I hate to be a stuck record, but huge security deposits are held. They are based on the point at which you took out your contract. If you took out your contract in July, it is usually three months of supply at that higher level that is held. That allows you to have that negotiation—there is an element there that is on the table; that is working capital tied up. It should be possible to have a gentle encouragement to have grown-up conversations and a pragmatic discussion.

The other think that could be done, if that is not possible, is whether there is a way to release that working capital back to the business. Could you now look at, when it comes to April, resetting those security deposits—three months at a lower, reduced rate? At least that business might then have some float to get through what is going to be a difficult few months.

If that is not possible, the only other solution to avoid business failure, and widespread business failure in hospitality and other sectors would be to increase that support, or to maintain that level of support for a slightly longer period.

There are no easy answers here from a Treasury point of view, a business point of view or a commercial point of view, but I would go back to the original objectives behind the scheme, which had two other points alongside it, which were broader economic benefits to protect billpayers and avoid business failure, and reducing the pressure on inflation. Otherwise, you do get an £18 pint, and we are significantly, disproportionately impactful on CPI. When we increased prices by 10% in April last year, CPI rose by 1.4 percentage points. Every time hospitality

has to increase its prices, we have a knock-on impact on inflation. If you want to get inflation down, you do need to make sure that businesses can withstand those bills.

Chair: I am sure the Chancellor is listening. Ms Morris, is there anything more?

Q78 Anne Marie Morris: Yes. I don't want to put words into your mouth, but we talked about SIC codes earlier. Would that be another of your asks—to have additional SIC codes from within the hospitality sector?

Kate Nicholls: That could be an additional way of doing it, but that would involve additional funding from the Treasury. But you could then look at SIC codes that didn't meet the energy-intensive and trade-intensive requirement for the top-up support to be included within that top-up support.

Q79 Chair: I think we have probably pretty much covered the top two or three things that you would like to ask the Government. Is there anything you would like to add that you think would be a quick fix for some of the problems that we have been discussing?

Dhara Vyas: No. What I would say is that it is really important that we are considering that April cliff edge for domestic and non-domestic customers.

Chair: We are hearing that loud and clear.

Dhara Vyas: Also, we have touched on energy efficiency at various points in our conversation. I think there is a lot more that could be done in that space, too.

Paul Wilson: Nothing to add.

Kate Nicholls: No, nothing to add.

Andy Manning: We support keeping the energy price guarantee, and also energy efficiency—that could deliver £1,000 of support for the least efficient homes. The other point to touch on is that we have got to move out of short-term solutions, so I would be interested to see what progress has been made towards the building blocks that allow us to target solutions. Are we developing those databases of household data? That feels like a “no regrets” strategy. How is the progress towards that?

Chair: Certainly some of the off-grid stuff has been very interesting, to that point about knowledge of sectors. That is pertinent.

I thank all four of you for your generous time today. You have given us a lot of time, and it has been very helpful in preparing us for questioning Government witnesses. The transcript of this session will be available on our website in the next couple of days—thank you to our colleagues at *Hansard* for their work on that. It will be uncorrected, but you will be able



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to see it. The session has been streamed and so is available on playback or whatever we have—not quite iPlayer.