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Energy Security and Net Zero Committee

Oral evidence: [Pre-appointment hearing for the
Chair of Ofgem, HC 1833](#)

Wednesday 18 October 2023

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Members present: Angus Brendan MacNeil (Chair); Vicky Ford; Mark Garnier; Sir Mark Hendrick; Mark Pawsey; Dr Dan Poulter; Lloyd Russell-Moyle; Alexander Stafford.

Questions 1 - 66

Witness

I: Mark McAllister, Chair-elect, Ofgem.



Examination of witness

Witness: Mark McAllister.

Chair: Welcome to the Energy Security and Net Zero Committee hearing on the pre-appointment of the Ofgem chair. I will allow the chair-elect to introduce himself. Name, rank and serial number for the record, please.

Mark McAllister: I am Mark McAllister, the Government's choice to be the next chair of Ofgem. I am currently the chair of the Office for Nuclear Regulation.

Q1 **Chair:** Thank you for attending. What personal qualities will you bring to the position of chair of Ofgem? This is an opportunity for a mild boast. On you go.

Mark McAllister: A mild boast! In terms of personal qualities, I think my leadership style, which I have developed over 25 years as CEO and chair, will be of benefit. I would describe my style as collegiate, not in a passive way, but an active way. You might even call it inquisitive. I think the trilemma—we will talk a bit more about that in a few moments—is probably the national Rubik's cube. It is a really difficult challenge, and will require a lot of brain power. I am looking forward to working with the new members of the Ofgem board, the Ofgem executive and wider team, the Department, the industry, consumer groups, charities and anybody else who has commentary and insight into how to resolve this challenge. That is probably the biggest single quality I would bring to the role.

Q2 **Chair:** What differences do you think you will make? What difference will we notice, going forward, with McAllister at the helm?

Mark McAllister: My experience in the industry and in the voluntary sector brings a couple of things. One is that I come with a deep technical and commercial understanding from 40 years in the wider energy sector. Also, I have run some small start-up companies. Looking at the Oxera report, for instance, and the BEIS Committee report, one of the criticisms of Ofgem has been almost a naiveté around some of the new entrants into the industry in particular. I think I bring insight into how both small and larger companies behave and operate, which can be useful in our dealing with them.

The other way that I think I can contribute significantly is internally. Morale in Ofgem is low. They have had a lot of criticism over the last couple of years. The regulatory regime has been stress-tested with really, really high gas prices. One thing that I have done at the ONR, for instance, is get out among the staff, sit in as an observer on staff meetings, really get people focused on what their mission is, and try to raise morale in the organisation. I think I have been quite successful at that in ONR, and I hope to do the same with Ofgem.

Q3 **Chair:** You mentioned that morale is low, which is why I am asking what



sorts of changes we might notice. What are your criticisms of Ofgem and what is happening? What substantive things have led to morale being low?

Mark McAllister: As I have suggested, I think there are two key pieces of analysis and evidence. One is the Oxera report, which the Ofgem board commissioned, and the other is the report of the BEIS Committee. Looking at those, I would again use the word “naiveté” in talking about allowing companies into the market that are not financially strong enough. I have a lot of experience of that. I did a couple of start-ups in the North sea.

Q4 **Chair:** With respect, I think Ofgem realise that now. I am talking about change going forward; that is almost a realised error. What I am looking to you for are things that they have perhaps not fully acknowledged yet—things that you have noticed and need to see change on.

Mark McAllister: The first thing is to ensure that those lessons you say they have learned actually have been learned, because they were well pointed out. We need to ensure that Ofgem works very closely on supervising the industry, especially this winter, to ensure that standards are dramatically improved.

Although there has been a lot of attention around the short term—the energy price over last winter and this—I will want to keep Ofgem’s eyes focused on the long term, because the drive towards decarbonisation of the energy sector is massive, and will require a lot of co-ordination and facilitation of Ofgem and all the key stakeholders.

Q5 **Chair:** Do you think Ofgem have been too short-sighted, and maybe had metrics that led them to arrive at conclusions that have not looked at the longer term that you allude to?

Mark McAllister: A criticism that can be made of any regulator—and it is easy to get drawn into doing this—is their being reactive. One thing we developed at the ONR is an enabling form of regulation that allows us to be proactive and long-term in how we deal with issues.

Whatever has happened at Ofgem in the past—I am clearly working from the same reports as you—I am looking forward to getting in, lifting the bonnet, looking at the engine, and seeing what is actually going on there, in order to draw firmer conclusions about priorities once I start.

Chair: Let me give a small example from my neck of the woods in Scotland. For a number of years, an interconnector was asked for of about 600 MW, and Ofgem could not get round to agreeing it. There was great difficulty getting that agreed at 600. Something like 400 was going in, which we knew would be too small. It would be built at roughly the same cost and there would be problems, but Ofgem had this mantra at the time of value for money for bill payers. We suddenly woke up one morning and were told we were going to have, and needed, a 1.8 GW interconnector, which was treble the size. The reasoning that was given before had been thrown out the window, and the horizons they were working to were far too short.



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There have occasionally been things driving Ofgem that have not taken account of the wider view. Ofgem would blame the Government and the Government would blame Ofgem. If you go between the two, you are like a ping-pong ball between the two of them. The dogs in the street could have told you that 400 MW was too small. We felt 600 was too small as well, but we had to deal with that, because we were fighting against a group of people who wanted to give us 400. Next thing, we ended up—I am talking about from the outer Hebrides to the Scottish mainland—with 1.8 GW in what is sometimes a Saudi Arabia for renewable energy. Unfortunately, it leaves me locked on the island sometimes. We are talking about something that was obvious, but Ofgem could not see that, or not officially. Maybe individually people from Ofgem could, but they could not bleed over learning and knowledge from the very practical world that they were living in into the Ofgem sphere. That is really what I am pushing at.

Mark McAllister: Obviously, I cannot speak to your specific case, but it sounds quite dramatic.

Chair: It's an example.

Mark McAllister: Ofgem has been instrumental in calling for and designing the role of the future system operator. Clearly, the role of that operator will be vital, and Ofgem will have an important part in regulating a future system operator. If you take that in conjunction with Nick Winser's recent report, we are starting to get the basics of the architecture of what will be needed. Of course, there will be many challenges along the way to build that out. There is not just the competition for resources—both human resource and the supply chain and equipment—but the planning environment. Coming from the nuclear regulatory sector, planning is a major part of the timeline for getting new infrastructure built.

Q6 **Chair:** I wish you well in what you say about looking under the bonnet. I also hope that, when you come up against walls of—I hesitate to use the word "nonsense"; that is probably the wrong word. When you do come up against things that need to change, I hope you are fearless in pushing at that, and bringing that change, even if that means making demands of Government. It is an important role to play.

Mark McAllister: I think we have demonstrated that during my time at ONR. At Sellafield, which is one of the most hazardous places around, in the past two years we have started to see, after many years of delay, material removed from two of the most hazardous areas—the ponds and silos—and ONR has had a major role in that. I am really passionate about the fact that the regulator has both powers and influence. Even ONR, which is strictly a safety regulator, has really good insight, looks into other people's backyards, and can have an overview of the industry. It is even more the case that Ofgem can help to join the dots, so that we can move things forward more efficiently.

Chair: I will join some dots and move things forward to Alexander Stafford.



Q7 Alexander Stafford: Thank you very much for joining us. Why have you applied for this role, bearing in mind that you left the ONR only months after being reappointed? What was more attractive about this role than the one that you recently recommitted to?

Mark McAllister: I was thinking on the way over here that I first heard the word “trilemma” used to describe the challenge facing this country—that threefold challenge of price, security and the drive towards decarbonisation—probably about 15 years ago. In the interval between then and now, that threefold challenge has not got any easier. In fact, it has got a lot more difficult, hasn’t it? The issue is not just about maintaining affordable energy prices; we have to restore affordable energy prices and then maintain them. Retaining a resilient energy infrastructure and security of supply in the face of even more extreme weather patterns will be very difficult. As we have already started to allude to in this conversation, the build-out towards decarbonisation is a massive, massive challenge.

I have always been drawn by the big challenge, both in my professional life and in my voluntary work, and when I was approached by the executive search agency about this role, I thought, “I can bring a lot more of my experience to bear on the challenge,” knowing that Ofgem needed a change at the top. I leave behind in ONR a very strong management team, a really strong board that we have put together, and a very well respected regulator. In fact, we had our energy day at ONR just last week, and I came away from that really proud that the regulator is in a good place; it understands its industry and has its finger on the pulse. Actually, throughout this process, because the Department of energy has been involved, I have been very open: if the Department thinks I am better off and more valuable staying at ONR, I am quite happy to do that, but if they think I am more valuable at Ofgem, then I am ready to do that as well.

Q8 Alexander Stafford: Clearly you are passionate about the trilemma—very good. In your pre-appointment questionnaires, you said you were asked, “Will you serve your full term, and would you apply for another term?” and you said that you intend to serve your full term and you potentially wish to apply for another. If a better opportunity comes along to solve the trilemma, what is to stop you going off, away from Ofgem, just as you left ONR? You thought a better opportunity came along to deal with the trilemma.

Mark McAllister: I go back to what I said a few moments ago. At all stages in this process, I have made it very clear to the Departments that if my experience and expertise makes me better suited to leading ONR, I am quite happy to do that. If it is Ofgem, I am happy to do that. If another opportunity came along—I cannot imagine at the moment what it would be—clearly resolving the trilemma is the work of many, many decades, and I strongly feel that I will serve five years and be very hungry to carry on if people want me to.

Q9 Alexander Stafford: Does it surprise you to hear that only three people were interviewed for the role, and only you were offered the role, and



viewed as appointable?

Mark McAllister: I have been on the other side of the public appointment process several times in the last few years when recruiting non-executive directors. My understanding was that there were a few dozen applications for the role. We were shortlisted—I think they might have had a couple of last-minute drop-outs for whatever reason—and then, in terms of appointability, it was a very rigorous interview. I thought there was a very strong panel. Clearly they thought I was the only person appointable. I can't speak for the other people who were interviewed; all I can say is, here I am, offering my services.

Q10 **Alexander Stafford:** If only three people were interviewed, does not that speak of a wider problem in the public sector—that frankly there aren't that many good candidates? Do you see that as a problem?

Mark McAllister: I have not found that a problem in recruiting to the ONR, I have to say. I have built alongside the Department a strong board. We have had numerous applicants. I have usually put, on average, two or three appointable candidates through to a Minister at any particular point.

I have served on the management committee of the Public Chairs' Forum for the last few years, and I must say that there is a real depth of business and other experience sitting around the board tables of the public bodies. There is some real experience and talent there. But I think the public body application process itself is the country's best-kept secret. I stumbled across it almost by accident when I was leaving my executive life, looking for non-executive roles. I think we can do a lot more to advertise public appointments.

Q11 **Alexander Stafford:** This is the last question from me on this. When you eventually leave Ofgem, would you see it as a failure of your role if only three people were interviewed to succeed you? What would you do in the process to try to encourage a diversity of applicants and a breadth, as well as depth, of quality?

Mark McAllister: I think twofold: first, I do not know to what extent people were put off applying because it is Ofgem and the organisation has a reputation. The first thing I want to do is get Ofgem's reputation much higher over the next five years, so that it is a very attractive place to apply for. There is some of the work we have done at the Public Chairs' Forum over the last few years—Sarah Smart, who is now chair of the Pensions Regulator, has done a tremendous piece of work on diversity and inclusion at board level, and I think the Public Chairs' Forum is a great vehicle for doing that. I do not think it is about individual public bodies. Public bodies reaching out and getting greater diversity is something we can do together.

Q12 **Dr Poulter:** The board has recently undergone some fairly substantial changes. What is your understanding of those changes? Do you feel that the board is more functional as a result?

Mark McAllister: I have recently met the five new non-execs who will be joining at the same time as me—subject, obviously, to this Committee. I



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have been impressed by the range of experience and expertise; it is almost like it was planned.

In terms of the non-execs who are continuing, I have met them and there is some great strength there. I believe that I will have a board that I can really work with and get some great value out of. I really cannot speak for what has happened in the past. I do not know the history that well of how we got to a place where three quarters of the board is new on the same day. It is clearly a place we shouldn't get to, and we need to be planning better for changing the board going forward.

Q13 Dr Poulter: That is a slightly strange comment. I am sure you would have done some research or had some understanding of what had taken place before your arrival, particularly in the role of chair. Why do you think there has been such a substantive change?

Mark McAllister: I started in the energy industry in 1979 on the back of the second oil price rise. Through the last 45 years, I have worked in energy, and I have not seen anything like the gas price rise we have had in the last two years, with the tenfold increase. It is unprecedented. The market has been tested. The regulator has been tested. Clearly, there have been disagreements around the board table and it has been thoroughly tested. I do not think that we are entering any more tranquil times. My emphasis is on the board that I am inheriting and making the very most of that.

Q14 Dr Poulter: Do you feel that you now have the right skillset around that board table?

Mark McAllister: I think so at the moment. It will take us a few board meetings to really test that through and see if there is anything missing.

Q15 Dr Poulter: I will come back to that in a moment. You touched a little bit on how you may or may not work with Government. How closely do you think you will work with the relevant Government Department?

Mark McAllister: When I have thought about this, and obviously it is something I have tested over the last four and a half years at ONR, what I have done is look at the mission of the organisation, the areas in which we can support and help Government, and the areas in which there may be conflict. For instance, with the ONR, at the front end of new builds, the regulator should not be a barrier to progress, but the regulator needs to be completely agnostic about new builds as the safety regulator. At the back end of the ONR mission, where you are talking about disposal of waste, Sellafield and waste management, our mission and the mission of the NDA are very closely aligned—much more closely aligned.

As I look at Ofgem, from what I can see so far, if I take that trilemma, which we have referred to several times as the guiding star, with whatever Government and whoever is in Government, that trilemma should be guiding us all in terms of our progress. Just looking at areas in which there may be potential conflict with Government, we are responsible for delivering a number of Government schemes about both green energy and



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insulation. I can see there may be short-term pressures on Ministers to make announcements around that, in that area, to which we all want to say, "Is what you're announcing coherent with what we already have? Does this all add up? Does it make sense?"

- Q16 **Dr Poulter:** The role of the chair of any board—your role—is to sometimes be a critical friend and sometimes to have robust conversations with the chief executive. What do you anticipate being the most difficult conversations you will have with Jonathan Brearley?

Mark McAllister: I think dealing with industry. As we have said, a lot of the criticism in the Oxera report is around an understanding of how the industry behaves and how we deal with them, so that will be an area in which I will really want to get involved and challenge with Jonathan.

In terms of the internal, there has been an internal transformation project going on in Ofgem for the last couple of years, which has not gone down very well at all, so I want to really understand and make sure that we are on top of our internal resources. One thing I find with public bodies is that a strong public body has a deep technical knowledge, is independent and has a good corporate memory. The problem with Ofgem at the moment is the turnover is so high that both the corporate memory gets eroded and the technical knowledge gets diluted. I really want to press Jonathan and the team on making sure that we are working as hard as we can to get the best organisational capability within Ofgem, and part of that will be morale as well.

Thirdly, as I have already alluded to, it is about just continuing to raise their eyes on the horizon to make sure that we are continuing to press for the long term for the decarbonisation.

- Q17 **Dr Poulter:** We touched on this earlier, but you have had a lot of changes at the board level. Obviously, it has been a turbulent time for the regulator. There are perhaps some concerns over the future direction of travel. If you felt that the chief executive was not leading the organisation in the right way, both in terms of his internal and, indeed, external work, would you be in a position where you could say, "Actually, we need to have a new person at the helm"?

Mark McAllister: I would if I found that to be the case. As a chair, you have three tools, basically: encouragement, challenge and replacement. In some ways, it is a bit of a failure if you get to that third one. You are using the other two, pulling those other levers as hard as you can. As a board, we are there to make the executive as good as it can possibly be. That is the approach I have taken at ONR and it seems to have worked.

- Q18 **Chair:** A small question occurred to me just listening to your exchange. You talked about speaking to Jonathan and the team, and the high turnover of staff, but there will be some who have been there longer. How deep would you dive into the organisation? Would you look for fairly junior staff who might have been there a long time? We all know that within organisations there are several layers of identity going on. Are you a chair that just goes for the executives, or would you be a chair that



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goes further than the executives and would look to have a confidential chat with some of the other people who are maybe dealing with the executives?

Mark McAllister: At ONR, from the very outset I have had a series of what I call “Meet the chair” sessions on a regular basis. I get six or eight people from throughout the organisation, no matter how junior—from brand-new starts to directors—around the table together. The important thing from those conversations is, “Why did you join this organisation? What does it mean to you to work for this organisation?”—and then to draw a line of sight between what is important in your day job and what we are talking about in the board. That is what gives people real stimulus: “What I’m doing here at my keyboard is what you are talking about.” That is really important—right into the organisation.

Chair: Frankly, I am encouraged by that answer. Thank you.

Q19 **Lloyd Russell-Moyle:** The management structure of the organisation has changed, partly to address one of the predecessor Committee’s recommendations that Ofgem was not fit for purpose. What is the point of Ofgem?

Mark McAllister: Ofgem’s mission is to protect consumers both now and in the future, and I think its role is using its legislative powers and influence to help the country solve the trilemma.

Q20 **Lloyd Russell-Moyle:** And how do the energy poor fit into that picture?

Mark McAllister: They fit right into the heart of it. Clearly, one of our key priorities is to protect consumers, especially the vulnerable: the energy poor, people in rural areas, elderly people and the disabled. All of them are really important.

Q21 **Lloyd Russell-Moyle:** People who are not on the grid, and people who might be forced on to commercial meters when they are residential customers.

Mark McAllister: Absolutely. We have seen some very poor behaviours around prepayment meters in particular, and I know that Ofgem has announced new standards and regulation around that. Again, I will want to get in and interrogate not only whether those are adequate but whether they are being policed properly and whether we are really on top of that.

Q22 **Lloyd Russell-Moyle:** How specifically will you judge success in those areas?

Mark McAllister: The main criterion I can use is public satisfaction. That might sound a bit amorphous, but Ofgem’s and the industry’s ratings with the public are uncomfortably low and have deteriorated. Over the next few years, I want to see both those numbers rising, not through any fancy ad campaigns, but through customer service being a lot better.

Q23 **Lloyd Russell-Moyle:** At the moment, as you rightly point out, many customers feel failed by their providers. Should Ofgem be more interventionist in ensuring that customers come first? We heard during



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the panel before last, when we had all the chief executives along, that Ofgem had required them to make customer satisfaction improvements. Most of them did not even know about it and/or were saying, "That's for further negotiations with Ofgem," rather than their feeling like the law had been laid down. How will you make sure that customers can rely on you? Is it that they can come directly to you more easily, or is it that they see their companies responding more quickly?

Mark McAllister: You used the word "interventionist"; I would replace it with the word "intelligent." I think we need to be a more intelligent regulator—that is the key. The last time I sat before one of these Select Committees was in the middle of the Macondo blow-out in the gulf of Mexico, and we were examining whether such a thing could happen in the North sea. One of the greatest bulwarks against that was the intelligence of our regulatory system and the safety case system—people identifying their own risks and dealing with them. That is something that is in the nuclear industry.

What I have added to the nuclear industry is a regulator that is confident, courageous and not afraid to use all its powers, both in terms of enforcement and prosecution but also in terms of its influence, really getting in among those board members. I want to sit with those chief execs. I want to see the whites of their eyes and say, "How on earth is this happening on your watch?" To me, that is very much a part of this role. Clearly, there should be standards for customers to be able to get support from their supplier and from other organisations. Also, I think Ofgem senior management already sit in on customer calls and listen to customer complaints directly. That is something that I will be very keen to do from the moment I start, so that I really understand that.

- Q24 **Lloyd Russell-Moyle:** Does Ofgem have enough technical expertise when dealing with companies, particularly when you are talking about grid connections and the grid connection list that needs to be more dynamic? At the moment, is Ofgem's approach too reliant on companies' technical expertise rather than having that technical expertise? How should that, or could that, change?

Mark McAllister: First of all, of course, the high turnover we have seen at Ofgem due to low morale is like running up a down escalator in terms of maintaining technical expertise. We need to deal with that.

Lloyd Russell-Moyle: Electrical engineers, people who really understand it—

Mark McAllister: I have some engineering background. In addition, the role of Ofgem and the future system operator is to work together almost in tandem—making sure that their roles are clearly defined, complementary and not contradictory. But it is also about having that strength in Ofgem to be able to examine the technical detail.

- Q25 **Lloyd Russell-Moyle:** You have talked a lot about how customers—mainly residential customers—will hopefully see advantage. What are the kinds of indicators that you would expect to show improvements for small



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suppliers or builders—people who at the moment also feel let down by the energy system because the regulator is hampering their ability to build for Britain?

Mark McAllister: Fewer of them going out of business is the short answer. It is about making sure that when we talk about consumers, we are not just talking about domestic. Those small businesses are the backbone of the country and we need to make sure that they are getting equally good service from the suppliers.

Q26 **Mark Pawsey:** In your answers to Dr Poulter, you set out—quite effectively, I think—the difference between the chairman and the chief executive in an organisation. I sat on the BEIS Committee for a number of years and took evidence from the current and the previous chief exec without knowing, at any time, the name of the previous chair. Is that a good thing or a bad thing?

Mark McAllister: That is not a good thing.

Mark Pawsey: It's not a good thing?

Mark McAllister: No.

Mark Pawsey: Tell us why.

Mark McAllister: There is a joint responsibility, in terms of myself, or the chair, and the chief executive to be the public face of the organisation and to reach out to stakeholders. It is not necessarily for the chair to reach out to the wider public, but it certainly is to reach out to Parliament and certainly to key stakeholders at a very senior level. The chair has a really important role to play in—

Q27 **Mark Pawsey:** Why do you think that role has been absent then in previous years?

Mark McAllister: I cannot speak for previous incumbents; all I can say is, for myself, that will be one of my priorities.

Q28 **Mark Pawsey:** So if we took evidence from Ofgem, would you expect to accompany the chief executive at a witness session such as this?

Mark McAllister: Depending on the topic, yes—definitely.

Q29 **Mark Pawsey:** Is it important for the chair to always be in lockstep with the chief executive?

Mark McAllister: The chair and the chief executive need to work as a team. We have already spoken, when I was responding to the previous questioner, about how the chair's role is to challenge and encourage the chief exec and to get the best possible out of them. So when you say "lockstep", I think it is in sympathy, but there will always be a dynamic tension in that relationship.

Q30 **Mark Pawsey:** The brief to Ofgem changed massively when we decided that we were no longer going to go for a competitive market and



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encouraged switching and changing between suppliers, through to the introduction of the price cap. Jonathan Brearley, the current chief executive, said that was okay for then, but it may not be right for now. Where do you stand on that?

Mark McAllister: When I think about the price cap—obviously, Jonathan has talked a lot about its limitations in dealing with highly volatile prices—I am thinking more about the future and the world in which we are going to have to use electricity far more intelligently than we do today, to charge electric vehicles overnight and all the rest of it. If we are to get to decarbonisation, we have to do three things: reduce electricity use; even out the use of electricity; and then build out. If we can reduce the amount of infrastructure we have to build, that is really important. It is not just a matter of kit; it is a matter of building systems and markets that actually work in that new world. There is a good chance that the price cap is not the right—

Q31 **Mark Pawsey:** So there's a situation where there is absolutely no incentive for the consumer to change from one supplier to another—a system that has outlived its usefulness.

Mark McAllister: What I would like to see is competition in the market and that what people are bringing in is genuine innovation. We have seen one of the new entrants—

Q32 **Mark Pawsey:** And it is Ofgem's job to encourage that?

Mark McAllister: Yes.

Mark Pawsey: Thank you.

Q33 **Vicky Ford:** My questions are about consumers. It is 10 years since Ofgem brought out its standards of service for the retailers. Those standards say the suppliers should act in a "fair, honest, transparent, appropriate, and professional manner". Do you think retailers do a good job of looking after their customers, especially when things go wrong?

Mark McAllister: Certainly what we have seen over the last couple of years, especially during the crisis, is levels of complaints rising dramatically. I think the retailers have got to look to themselves to improve customer performance, and Ofgem has a really important role, as I said earlier, in terms of its power but also in terms of its influence.

Q34 **Vicky Ford:** We have heard some really awful horror stories—all of us—about big energy companies. We hear the stories of customers who have paid in money and are owed credit, but the energy companies have made it impossible to get that money back out. We have heard of vulnerable customers who have not been able to pay their bills having huge harassment from lawyers being sent in. Who should speak up for those customers? We have certainly not felt empathy equally from different energy companies.

Mark McAllister: I think you have made a good point there in terms of "equally". I see it from the public domain at the moment, but I really want



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to investigate, in the role, how each of the energy companies is performing—where is best practice and what does “good” look like?—and show to others what “good” looks like. Why can’t we all behave in that way? So really encouraging by example, but also by challenge and getting the energy companies to support customers much better.

- Q35 **Vicky Ford:** I am glad you said that, because there is clearly a lack of trust. I also think there is a lack of trust in the regulator. The regulator told us, “You have to have this consultation on customer standards,” which we launched in July, and they told this Committee that you would be publishing your response and your decisions in early October. To me, that means the first half of October. Those decisions were published this morning and the cynic in me thinks, “I wonder whether they published them on the morning of this Committee so that we did not have a chance to read them properly before you came in here.” That is the cynic in me, because that is certainly what it feels like as the Committee that is meant to scrutinise you.

In particular, one of those recommendations, which is a really important one, was that you were going to make sure that if a customer is cut off from their power or gas supply, because the supplier had caused a problem—for example, a faulty meter—that customer should be able to get assistance 24/7. If it happens on Saturday night in the middle of winter, they get that help.

In your response, which I have just been reading, you say you are going to do that, but not before Christmas when the rest of the decisions will come out. You will wait another two months until after the winter. So we are going to have customers that this could happen to. I am giving you this example because it worries me—the timing—that Ofgem feels that this might be slippery, and the delays to this response are not wanting them to be properly scrutinised. I would urge you as chair to please tell us how you are going to try and rebuild that trust in Ofgem and make sure that Ofgem can be properly scrutinised and held to account.

Mark McAllister: Clearly, I have no say in the timing of the release of those standards. I can sympathise with your cynicism. I will want to get in and look at not only what is in the standards, but how well they are being enforced. That will be one of my first priorities. All I can offer you is: I am happy to come before this Committee whenever, and be very frank and transparent about the performance of Ofgem. Even *Private Eye*, when having a pop at me last week, still said I was transparent and approachable, so I am glad to bring that into the role.

- Q36 **Vicky Ford:** We like transparency because it is vital to rebuild that trust. One last question: do you think retailers should face bigger penalties when they have had poorer customer service? I like what you said about looking at best practice. Do you think there should be bigger penalties for those who are clearly not delivering best practice?

Mark McAllister: We can ratchet up penalties, but they will always be relatively modest compared with the turnover of the organisation. As I said before, my learning from ONR is to use the full range of powers and



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influence. I would want to look at what penalties we can impose, what enforcement actions we have, and what is our influence—from the folk installing the prepayment meters or answering the calls, all the way up to the boardroom.

- Q37 **Vicky Ford:** Can I urge you to reflect on that? The Information Commissioner can fine a company a massive percentage of turnover if it breaches data protection. We have just given competition authorities the ability to put massive fines in if there is a failure to act within digital market competition laws. Those big incentives can, as we have seen in data protection, lead to a great improvement in a company's behaviour.

Mark McAllister: Let me take that away and reflect on it. Thank you.

Chair: Mark Garnier—one of the four Marks in the room, as you have pointed out.

- Q38 **Mark Garnier:** We are missing one as well; there should be a fifth.

Thank you very much for coming in front of us. Can I ask a few questions about the structure of the market, particularly the relationship between the middlemen and the producers? My first simple question is: what is the value of having middlemen getting in between the producer and the consumer?

Mark McAllister: Clearly in other markets—not energy—it has proved useful. People have found it easier to move by having comparison sites and so on to help them. It has not been so efficient in energy. Most of us are quite bewildered about what offerings are out there. I think we need to look at it specifically around energy. As we look across the utilities—whether it be water, telecommunications and so on, or even the insurance markets—it is not one-size-fits-all. We need to have a hard look at whether they are playing an important role or whether it should be directly with the suppliers themselves.

- Q39 **Mark Garnier:** Apart from anything else, the uniformity of offer is minimal, isn't it?

Mark McAllister: Yes, there is not much to compare at the moment with prices coming up against the price cap.

- Q40 **Mark Garnier:** One of the initial starting points in this whole thing was to have competition, so people could drive the tightest market to their benefit. But you have a situation where producers are also allowed to sell directly to end consumers, and you end up with a potential problem where there is not a middle structure that needs to be paid for, and then you have further cross-subsidy between other types. In some cases, they could be producing gas and electricity where they could cross-subsidise. Therefore, you end up with a slightly peculiar competition within the market, because middlemen don't have those advantages whereas producers do.

Mark McAllister: Yes, and what you have put your finger on is a complex ecosystem. Some suppliers are just suppliers, some upstream companies



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are just upstream companies, and some people are integrated across. Going back to your colleague's question earlier about being more interventionist, again, I would push back and be more intelligent. How can we build a system that is largely self-regulating? I am not talking about self-regulation; I am talking about a system that has flexibility and can capture all those nuances. That requires an awful lot of thought and intelligence. It is not just about designing a system for today, as we keep alluding to. We have to design a system for 10 and 20 years out, when our use of electricity is going to be so much greater and so much more varied. It is going to be a real challenge. Then, of course, I know that all of you are concerned about the vulnerable customers—the ones who can't participate in that intelligent market. How do we protect them as we move forwards?

- Q41 **Mark Garnier:** We will come to a few more questions on that a bit later, but one thing that I also wanted to ask about was this great argument about super-profits for businesses, particularly gas producers, that are making a huge amount of money. There is a lot of anger about that for quite understandable reasons, and, of course, the answer is then an excess tax in order to take away those profits. What happens in the event of declining prices, where the spot price is lower than the break-even price for those producers? Does the state step in and bail out those producers?

Mark McAllister: I wouldn't have thought so, no.

- Q42 **Mark Garnier:** So here is where I come to the fundamental question. I completely understand the anger about people paying out dividends to shareholders—although only half get it. By the way, I declare an interest; I was an investment banker and a hedge fund manager for 27 years, so I look at this from a business-resilience point of view, if you like. On the excess profits, as I say, I get the social value point, but, equally, we need these businesses to be stable, and if we are not prepared as a country to step in and bail them out when the spot price drops too low, do you think it is right that we should be taxing them when, actually, that money could be being put in reserves, or we could instruct them to put it into reserves to protect them through bad times?

Mark McAllister: I think you have to look at where we are in the history of the upstream business. I was involved in the upstream business in 2008, at times when there had been increases in the oil price and in which super-profit taxes were posited, and one of the big pushbacks is that a constantly changing tax regime is really not helpful for investment. Therefore, I think that stability is really important. But we are looking at a much later life in the trajectory now. It is about that balance between realising that extra revenue and the investment needed. That balance changes all the time.

- Q43 **Mark Garnier:** It is very interesting that you have raised that point, because we have had some producers in recently and were asking—well, I was asking—similar questions about this. In particular, that was about this sort of political and legislative changing of tack that is going on—tack



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is probably the wrong word, but questioning. One of the questions that I asked was about their ability to raise capital, and it was interesting that every one of those producers was saying that the rating agencies had been downgrading their credit risk. As a result of that—as a direct result of UK intervention, either through taxation or political intervention—it is more difficult for British businesses to raise money to invest in infrastructure and security than it is in other countries. Do you have any thoughts about that?

Mark McAllister: If you look at the landscape of the upstream producers in the North sea today, despite the fact that the table stakes of the North sea are very high—just to get involved costs an awful lot, and I had to raise that money myself on a couple of occasions—we have seen a good turnover of the majors moving out and independents moving in and growing, so I think that the system is reasonably robust, but there will always be challenges.

Q44 **Mark Garnier:** Do you recognise that we can sometimes poison our own well by attacking—

Mark McAllister: I think that by constantly changing fiscal regimes, yes, we can.

Mark Garnier: So stability is something that you—

Mark McAllister: Yes, stability is important.

Mark Garnier: That is very helpful. Thank you very much.

Q45 **Vicky Ford:** I am really glad that you mentioned the changes that we will see—the use of electricity being so much greater, with many more multiple sources. One of the things that the Prime Minister highlighted in a recent speech that he gave on energy was the need to improve the speed of getting connections to the grid and of planning. Have you thought about the main obstacles to that? While thinking about that, what we see happening in a lot of other countries is local power networks. They have factories operating off-grid, for example. But that doesn't happen in the UK. How do we make those sorts of transformative things happen?

Mark McAllister: There are three different elements that I can think of regarding that question. The first is around the current waits to get into the system—the connection times. There are a lot of projects in the queue that are poorly financed and are not mature technically. We really need to look at how we get the queue to be more efficient, so that those with finance and mature projects can get connections quicker. That is one aspect.

The second aspect is the interrelationship between all the regulators and the planning system. I see the same in nuclear with Sizewell C. Is it the nuclear regulator? Is the Environment Agency? Is it the planning authorities? Where does any particular decision lie? I have a home in Norfolk, and one of my favourite cycling routes is where the pylons are



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planned to go—from Norwich down to Essex. I think every local MP is against it, so it's a really interesting challenge.

The third point you make is a really interesting one: how much can we co-locate major generation and major use? Can we get generation up on Teesside and close to the point of use, and take a lot of the load off the infrastructure? Having the future system operator—a sort of guiding brain around the whole system—will be vital.

Vicky Ford: Well, I suspect you are going to have problems with your cycle route.

Mark McAllister: Indeed.

Q46 **Chair:** We will move swiftly on from cycle routes, as they are not within our remit.

The Committee recently recommended that Ofgem and the Government should introduce a social tariff. Do you agree that there is a need for a social tariff of some kind for those in fuel poverty, and if so, have you any idea how it should work? It is one of the big moral questions within energy and what is happening to people day to day outside these rooms.

Mark McAllister: I am not trying to duck the question, but the role of a social tariff is a matter for Government because the Government has a much wider range of tools at its disposal than just energy costs to help vulnerable customers, who are suffering not just from energy costs but from the cost of living in general. I think what we can do, as Ofgem, is to use our powers to get good performance from the suppliers, and use our influence with Government to bring to them the evidence and data so that we can have an informed conversation about these things.

Q47 **Chair:** I am glad that you do not want to duck the question; that's encouraging. I do not know why the words "ducking the question" came into your mind at all.

If I was a Government, and I came to you and said, "I want your views on a social tariff?", what would you say to me? You are quite a learned man in this area and we are now making your chair of Ofgem: you'll have views. Go on, give me your views.

Mark McAllister: My views are better discussed with Government in private, based on the evidence I have in front of me, and on a robust and rounded conversation, rather than giving them in public.

Q48 **Chair:** I thought we were having transparency—I've approached you with a question, looking for some transparency!

Mark McAllister: Semi-transparency!

Q49 **Chair:** You may have a second write-up in *Private Eye*, but I will take the "whenever".

I am sure you understand the difficulty that a lot of people have with the standing charge, which is, of course, a sort of poll tax on electricity. I



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apologise if I have overstepped there. Do you have any views on that?

Mark McAllister: The shape of the energy price between standing charge and unit cost is not simple. There will be winners and losers, whatever you do with the standing charge. It will not necessarily be the most vulnerable or the energy poor who will benefit. There may be people who have a very high demand for electricity—maybe with medical equipment in their house. You drop the standing charge but put up the unit price, and they are worse off.

Chair: But there are surely ways to design around that. I want to bring in Mark Garnier, because he has quite a few thoughts on the standing charge—before we go down those sorts of rabbit holes.

Q50 **Mark Garnier:** I completely get the idea behind the standing charge. There are a whole load of different things in the standing charge, including cost of distribution and overheads, and all that kind of stuff. But the bottom line is that it is a fixed standing charge, so it is effectively a regressive tax. If it was a standing charge per unit of energy being sold, at least it would be fair to everybody. It just seems a very wrong way of doing it. It is allocated to a bill, so therefore you pay whatever the standing charge is, irrespective—so Buckingham Palace is paying the same standing charge as a humble crofter's cottage. Can we not just change the way it is done?

Mark McAllister: Clearly, looking at the standing charge and the shape of the energy price is an important consideration, and I will want to roll my sleeves up in order to understand that in greater depth.

Mark Garnier: Do you agree it's a bit daft, though?

Mark McAllister: What I am saying is: I don't want to do something that has unintended consequences. Really need to understand—

Q51 **Mark Garnier:** Can you think of an unintended consequence that might happen if we were if we were to make it a progressive measure?

Mark McAllister: Somebody with two homes.

Mark Garnier: Why would that be wrong though? I declare an interest.

Mark McAllister: The more wealthy customer is saving two standing charges.

Mark Garnier: Well, they're not because they're still paying the standing charge, but they're paying it per unit used, rather than per home.

Mark McAllister: Right, okay.

Mark Garnier: Do you see what I mean? Rather than just saying, "Look, here's £100 before you start," you say, "We'll divide that" among whatever it is, so if you use a huge amount of energy you are paying £500 and if you use none at all or very little, you are paying £5. That's the point.



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Q52 **Chair:** Our colleague Mark Pawsey in the past has raised the fact that when you go to buy another form of fuel—in a fuel station—you are paying for the infrastructure on your usage per litre. There is a model there for what Mr Garnier is suggesting.

Mark McAllister: And I will want to look at the shape of the energy pricing—both standing charge and the unit charges—and the layering as soon as I get into Ofgem.

Mark Garnier: Come back and tell us what your findings are.

Mark McAllister: Absolutely. I am very happy to come before you.

Mark Garnier: Also tell us all about your private conversations with the Government, since we are here to scrutinise.

Mark McAllister: Absolutely, I understand that.

Q53 **Chair:** You're wanting to be non-transparent on your view on standing charges, but I hope you will be approachable and allow me to ask you: what do you see as the key policies needed to address fuel poverty?

Mark McAllister: Again, it is not for me to opine on Government policy. I am sitting before you as the potential chair of Ofgem to ensure that Ofgem plays its role in getting better customer service from suppliers and that it influences Government, in confidence, with the evidence.

Q54 **Chair:** I have a final question in this area. Given what you have said, does it concern you that people might not be able to afford to heat their homes this winter?

Mark McAllister: It concerns me greatly.

Q55 **Chair:** As chair of Ofgem, would you see any role in alleviating that or helping?

Mark McAllister: Absolutely—in terms of getting the suppliers to perform better and using our influence with Government around what will happen this winter.

Q56 **Chair:** But if suppliers perform better and at the same prices, will people be able to afford to heat their homes? I would suggest not.

Mark McAllister: Of course the energy cost is riding on the wholesale gas cost.

Q57 **Chair:** Therefore, we need some sort of social tariff so they can heat their homes, surely.

Mark McAllister: It is a Government decision as to how they use the tools at their disposal to help.

Q58 **Sir Mark Hendrick:** Let us leave aside the issue of the standing charge, because I do think that paying a standing charge on infrastructure that has been there for decades is ridiculous. Having said that, I did visit a consultation for an offshore wind farm in Lytham, Lancashire. There is a



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company there—I think it is called Morgan—working with Baden-Württemberg, a company from south-west Germany, to develop these things. Anyway, long story short, clearly there will be an up-front cost with this infrastructure. They are going to have windmills that, because of the curvature of the earth, are not visible from the coast. There are no big planning reasons not to accept it and that will happen. Obviously there will be cabling and everything coming under, and planning permission will not be a problem because a lot of it is going underground anyway.

My concern is this: leaving aside the standing charge, the actual cost of electricity production should not, in my view, be linked to the cost of oil or gas, and the cost of production in a proper market should be passed on to consumers. If the cost of that is very low because it is not linked to oil or gas, shouldn't something be done about that? Shouldn't you be looking at ways in which you can peg the unit cost to the actual cost of production, rather than necessarily having it also at the cost of gas, for that matter?

Mark McAllister: Where we are today with gas as the major back-up fuel for energy supply, the linkage is there. As we move to a supply that is based largely on solar and wind and possibly nuclear, obviously it will be much more to do with the capital costs that have gone in than the running costs. The pricing system has to change and it will change. It is a question of doing it in the best and most intelligent way to protect consumers, both now and in the future, and of making sure that we have the investment to get ourselves to full decarbonisation.

Q59 **Sir Mark Hendrick:** But how do you pass the real cost on to the consumer rather than having it pegged, if it is all one market?

Mark McAllister: Well, that market will change over time.

Sir Mark Hendrick: How is it going to change?

Mark McAllister: Because eventually we will be a largely electricity-driven market with very little contribution from gas, so it has to change by definition.

Q60 **Chair:** But as the current structure of the market remains, and the last megawatt that comes on this boat is gas, everybody gets a gas price. When a farmer goes to market and sells his livestock, he is not getting the price that the top-paid farmer is getting at the auction. He is getting whatever he is getting. We are seeing a situation where we have people producing wind at a very marginal cost sometimes receiving huge constraint payments—up to £1 billion a year—but getting paid prices on gas when the wind costs have not gone up at all. Are you saying, then, that for the future we need distinct markets—a renewables market, a gas market and a nuclear market? What are you pushing at here?

Mark McAllister: I am not going to make pricing policy on the hoof here, but it is clear that over time, as we are less reliant on gas, the pricing mechanism has to change.



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Q61 Sir Mark Hendrick: You say it has to change, but how do you disaggregate it all being set at the gas price into it being set at the actual cost of production and obviously the initial investment that was made to get the infrastructure in there in the first place?

Mark McAllister: As we look at the markets, the future system operators and designing the systems and markets that we need to get to decarbonisation, that will be part of that conversation.

Q62 Vicky Ford: Mark, when you walk out of this room, this Committee is going to make a decision about whether we approve you in one of the most important roles in the United Kingdom, making sure that every single one of our constituents has an energy market that they can rely on to heat their homes and get the energy they need. We have done a lot of due diligence and media searches on this. A couple of times you have mentioned an article in *Private Eye*. I have not read up *Private Eye*. Can you tell us what it said and what your view is on what it said?

Mark McAllister: Yes, indeed. I think the phrase was that my record was mixed at ONR, according to *Private Eye*; that I was approachable and transparent but that I had championed enabling regulation, which was “doing what the Government wants”. That is not what enabling regulation is at all. Enabling regulation is working with those we regulate to get the best possible outcomes. I go back to Sellafield, which has deals with the really poor hygiene, shall we say, around nuclear waste management of the 1950s and 1960s, and is now having to deal with it. Under that enabling regulation regime, we are now seeing some of the most hazardous waste in Sellafield finally being retrieved and safely stored. I do not know where that quote came from, but I would be proud of my record at the ONR.

Q63 Vicky Ford: Final question from me: if we appoint you or confirm your appointment, is there anything in your past that you think could bring this role into disrepute if it came out in the future?

Mark McAllister: I do not believe so. I have been—

Vicky Ford: Thank you.

Q64 Chair: Just before we conclude, you mentioned a number of things, but I wanted to go back to the constraint payments that have been raised, just briefly. What view do you have on those three payments of £1 billion to energy companies?

Mark McAllister: Sorry, which payments?

Chair: Constraint payments, when companies are paid up to around £1 billion to not produce energy.

Mark McAllister: Again, we need to design the markets and the systems that make our use of energy as efficient as possible in a world in which we are going to be largely electricity-driven. We have seen just this morning the National Infrastructure Commission saying that it does not see a role for hydrogen in the heating of homes. That makes us even more



dependent on electricity, so those constraint payments are just a reflection on an inefficiency in that system. We need to make that system, in terms of its infrastructure, its systems, its markets and its planning, as efficient as it can possibly be.

- Q65 **Chair:** When answering a question from Lloyd Russell-Moyle earlier, you mentioned consumer protection and said that it was a main driver. There is of course the tension I raised with you earlier of consumer protection now versus consumer protection in the future. Had pennies been spent in the past, pounds might have been saved in the future. How do you see that balance going forward?

Mark McAllister: In terms of pennies being spent in order to save pounds, first of all we need to move with urgency towards the decarbonisation of the system. It needs to be well planned so that there is no duplication of effort and there is no misspend of capital. It needs to be well regulated, but also, as I said in my answer to Vicky Ford, I think we really need to be imaginative in how we are designing this system so that we are building the least amount of infrastructure we need through more intelligent use of electricity and more intelligent placement of generation capacity.

- Q66 **Chair:** I have a final point. You made mention of the telecoms market and the water market. The water market in Scotland is different. It has not been privatised; you do not have the middlemen. The telecoms market in the UK has had so many middlemen that they have built probably about two and a half networks to cover the UK's land mass. If you go to the likes of Switzerland or the Faroe Islands, which have more challenging topography, you will find that there is a more complete network available to the consumer. Sometimes planning things, rather than leaving the market to blindly compete, might be more useful.

To touch on your past with the Oil and Gas Authority, it once highlighted to me that when the UK was doing competition, Norway was doing planning. That meant that, in Norway, there was one type of yellow paint; in the UK, there was 40 types of yellow paint. In Norway, there was one standardisation of pump; in the UK, there can be many pumps on different platforms. When Norway had a platform went out, they got a helicopter to the next platform. When a platform goes off in our section of the North sea, we might be waiting days for a pump to arrive from Texas. The fundamental question is about the philosophy of these market structures, which are very regulated spaces in the UK. Do you see limitations or problems with some of those?

Mark McAllister: If I was looking at the upstream markets, I would say the most efficient country is Holland. It is more efficient than Norway and it has a free market economy. It is horses for courses. There are places for markets; there are places for central planning. In a structure as big as this, there will be times that we are going to have to make central decisions in order to force things through and then use the markets to do what the markets do.

Chair: There is obviously scope for further reading on what is going on in



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Holland. Thanks for that tip. Mark McAllister, thank you very much for coming to see us this afternoon. We wish you well in your future.