

Energy Security and Net Zero Committee

Oral evidence: [Energy bills for domestic customers](#), HC 299

Wednesday 22 May 2024

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Members present: Angus Brendan MacNeil (Chair); Dr Thérèse Coffey; Vicky Ford; Mark Garnier; Sir Mark Hendrick; Mark Pawsey; Lloyd Russell-Moyle; Derek Thomas.

Questions 193 - 341

Witnesses

[I](#): Jonathan Brearley, Chief Executive Officer, Ofgem; Tim Jarvis, Director General, Markets, Ofgem; and Charlotte Friel, Director, Consumer Protection and Retail Markets, Ofgem.

[II](#): Amanda Solloway MP, Parliamentary-Under Secretary of State (Minister for Energy Consumers and Affordability), Department for Energy Security and Net Zero; and Jane Walker, Director of Affordability, Department for Energy Security and Net Zero.

Written evidence from witnesses:

- [Department for Energy Security and Net Zero](#)

Examination of witnesses

Witnesses: Jonathan Brearley, Tim Jarvis and Charlotte Friel.

Q193 **Chair:** Good afternoon and welcome to the Energy Security and Net Zero Committee for our second and final session on energy bills for domestic customers. We are very pleased to have the high heid yins, as they say in Scotland, of Ofgem in. I will let Ofgem introduce themselves on their own terms, starting with the man in the middle.

Jonathan Brearley: Thank you. Jonathan Brearley, CEO of Ofgem.

Chair: Ladies next.

Charlotte Friel: Charlotte Friel, director for retail pricing and systems, Ofgem.

Chair: Thank you. I hope you will forgive my sexism.

Tim Jarvis: Not at all. Tim Jarvis, director general of markets.

Q194 **Chair:** Excellent. Thanks for coming along this afternoon. To kick us off, whose responsibility is it to ensure that energy bills remain affordable for the British public? There are a whole variety of things in and around that, of course—standing charges and everything else—that you may want to widen out on.

Jonathan Brearley: The responsibility to make sure bills are affordable is one that is shared. In a sense, as a regulator, what do we do? We need to bear down on costs. We need to make sure that charges are allocated as fairly as they can be. But what we cannot do on our own is direct support to particular groups of customers.

When I stand back and think about what that means for where we are today, let's have a look at the market as a whole. What we are clearly seeing is that markets have stabilised. Prices have come down and we are hopeful that we will see positive news around the price cap on Friday. But the truth is that they are still significantly higher than they were before and when we look further out, our best estimate is that prices will stay high and volatile over time.

On the three things that we think need to be done in that shared endeavour, first of all we need to make sure that we are using our powers as much as we can to protect customers. So what have we done? We have introduced new standards to make sure that companies treat their customers who are in debt better. We have now made sure that the PPM tariff is the lowest-cost tariff in the market, and clearly the price cap at least makes sure that prices come down as fast as they have come up.

In terms of what we are thinking about and what we want to do, as you know, we have the standing charge call for input out, and that has had



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one of the most popular response rates we have ever had: 30,000 people have responded to that.

Q195 **Chair:** Is that popularity illustrative of the unpopularity of the standing charge?

Jonathan Brearley: I think it probably is, yes. When you look at the balance of those responses, clearly people feel strongly about this. If we were to make a change to the standing charge, that would have significant distributional consequences. In simple terms, those who are on a low income and have high energy use—around 1.2 million customers—will be around £100 worse off were we to get rid of the standing charge completely. Of course, if we were to get rid of a portion of the standing charge, that would proportionately change.

When I step back from this, I think we, Government and the industry need—

Q196 **Chair:** Those who will be worse off are those who have higher use—poorer people with higher use.

Jonathan Brearley: Exactly right.

Q197 **Chair:** You say some of those will be people with medical needs and some will have other needs because of poor housing stock. Have we any idea of the balance of that?

Jonathan Brearley: Perhaps Charlotte can explain what we think that group is made up of.

Charlotte Friel: We think the majority of that group are going to be off-gas customers—those who use electricity for heating their homes who live in poorly insulated homes. So, predominantly electrically heated homes.

Q198 **Chair:** So to go with that you need some sort of social tariff, presumably.

Jonathan Brearley: In a sense, what we are saying is that you definitely need, alongside any change, something that better targets our support on those most vulnerable customers. What we intend to do in summer is come forward with a package that will pull all that together. Part of that will be about what Ofgem does, and clearly part of that will be about what the industry does, but we also need to think more broadly about how collectively, with Government, we can better target support on those who need it most, because energy bills have been unaffordable for a significant number of people and that may not change.

Q199 **Chair:** Given all the thinking and all you are pulling together there, there is something that has come across our radar that is quite unfair on a number of people, including those who live in residential park homes—it was raised yesterday in energy questions—and that is district heating schemes. There seems to be no real regulatory protection for them at all. Will that be included? Old people are finding themselves with a



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middleman doing something in between. It is troubling and it comes our way.

Jonathan Brearley: Let me touch on district heating and then perhaps I will ask Tim or Charlotte to come back on those who live, in a sense, on non-domestic tariffs and therefore do not have the protection of the price cap.

Chair: Yes.

Jonathan Brearley: On district heating systems, we are in the process of setting up a new regulatory regime for heat networks. We expect that to begin to tackle some of the difficult circumstances we see customers in.

Chair: And those in residential homes or whatever. Tim—thank you.

Tim Jarvis: This is a challenge. Historically, customers in these sorts of properties actually used to pay less. What we have seen in the changes in energy prices over the last few years is that we have around 3 million domestic customers who are on non-domestic meters. That can be for a variety of reasons. It can be people living in mobile park homes or care homes. Often the owner of that property will have a duty to their customers in terms of how they charge them, but there is a regulatory challenge for us with that group, and we are looking at how we can best protect them.

Chair: It is on your radar.

Tim Jarvis: Very much so. We have introduced rules for the non-domestic sector and we have tightened those rules, but they are different than they are for domestic customers, where we have a price cap and other measures.

Q200 **Chair:** Finally before I go to Lloyd Russell-Moyle, in the Secretary of State's public letter urging you to tackle standing charges, she seems to be one of those who have joined the unpopularity side. What additional actions will that cause?

Jonathan Brearley: We want to work very closely with the Government. We understand the Secretary of State's position. There are two things I would say. First of all, we bear down on all the costs that feed into the standing charge. We have a regime that we think as best as we can makes sure that the charges are as low as possible. But if we are to make a more significant change and to move those costs somewhere else, that has distributional consequences. That is why we want to work with the Secretary of State to make sure that group is protected.

Chair: Thank you for your concise answer. Lloyd Russell-Moyle, you have just a minute to bat back and forward.

Q201 **Lloyd Russell-Moyle:** You have hit the nail on the head about these 3



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million customers who are on non-domestic tariffs, often in flats or in units where there is a shop and then a domestic property above. Surely the easiest thing to do is just to say that where there is any domestic element, it is a domestic tariff. If that means the business gets a bonus because they are also included in the cap, okay, good. A lot of our businesses need a bit of help every now and again anyway. But if there is any domestic element—or at least a proportion, say more than a third of it. We have a system at the moment where for park homes every single bit of electricity is going domestic but it just happens to be—it is the same with blocks of flats. There seems to be a loophole. Why can't you just make that one rule change to say—

Chair: Quick question and answer.

Tim Jarvis: We are looking at exactly that.

Q202 **Lloyd Russell-Moyle:** You said that to me a year and a half ago when we formed this Committee and I raised this issue with you. What have you done in that year and a half to make the change?

Tim Jarvis: We are certainly looking at the protections for people in those sorts of properties. We are making sure that they are on the priority services register. We are also looking at the rules of debt and disconnection, so that they apply in the same way as they do for domestic customers.

Q203 **Lloyd Russell-Moyle:** Why can't they be treated as domestic energy? What is wrong with that?

Tim Jarvis: Because they are businesses, essentially. They are on a business meter because the original customer is a non-domestic customer.

Lloyd Russell-Moyle: I don't think that is a good answer, but—

Chair: You will have time to come back to it. Derek Thomas.

Q204 **Derek Thomas:** Later on we will talk about how well Ofgem prepared for any shock of the sort we saw a couple of years ago, so I do not want to cover that, but what came as a real shock to both businesses and domestic customers was how energy company suppliers seemed to exploit the opportunity of the standing charge. I had businesses in my constituency having to pay £6 a day on several meters, and domestic customers often having to pay £1.09, and for a long time. It seems that we were completely unprepared. I understand your concern about stealing from Peter to pay Paul, but at the end of the day people can work hard to reduce their energy consumption, but they can get absolutely beaten up by the standing charge.

Whether it was a mistake or they were just unprepared, in my view standing charges have been potentially abused by supply companies that want to claw back some of the losses and the challenges they have found. Can you set out really clearly for us and for those who are



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watching what a standing charge is actually supposed to do for whoever it is supposed to do it for, and how you manage that in the future so that it cannot be exploited by energy companies?

Charlotte Friel: When you take a step back, the standing charge is there to recoup the fixed costs of the system, and this ranges from the supplier operating costs, as you highlighted, to the network costs for moving electricity around the system and Government policy costs. As Jonathan mentioned, we bear down where we can on the parts that we regulate. We bear down on network costs through the price controls and on supplier operating costs through the price cap.

In large part, we apply strong efficiency incentives through that to make sure that those costs are no more than they need to be, and the price cap largely passes those through, with those efficiency incentives applied. It is not within that supplier discretion to add in extra costs. The price cap bears down on that to make sure that that is not an option.

Jonathan Brearley: You have two things. You have the domestic market, where that is the case because we regulate the prices and we control the prices that the vast majority are on. In the non-domestic market, there were a number of supplier behaviours we were concerned about, and that is why we introduced new standards around what they do. There has been a debate about whether we should introduce a price cap in the non-domestic sector, but we think the complexities and the differences between businesses makes that harder.

What we are focusing on is making sure the businesses behave well and making sure the brokers are regulated. We have asked Government to give us the power to regulate brokers so that you do not have the situation you had two years ago where brokers were pressuring customers to take deals that simply were not in their interest. Ultimately, though, particularly for larger businesses, we do rely on them to do their due diligence.

Q205 **Derek Thomas:** I hear that, but what I don't understand is: if it is just a fixed cost, why did it vary so much across suppliers? When you could phone around to get a decent energy supply, why was a low standing charge a part of the offer? For example, before the energy price went up, the standing charge was roughly 12.5p a unit, and then it went to about £1.09 for domestic customers. What fixed price grew by that extent to justify that increase?

Charlotte Friel: There have been two key drivers behind the change in the domestic standing charge. The first is inflation; that has driven some increases. The other is around a change in the way that we allocate network costs. It is not that the costs themselves have increased, but they used to be allocated on the unit rate, and we made a decision through our targeted charging review to shift them on to the fixed rate. That drove a significant increase—I recognise that—in the standing charge.



If we just take a step back as to why we looked at that, the challenge here—and this was particularly prevalent in the non-domestic sector—is that where those costs fell on the unit rate, by installing batteries and other technologies parties were able to avoid paying their fair share of those costs. That meant that other customers were picking them up. In particular, we saw domestic customers picking up a disproportionate share of those fixed costs when non-domestics were able to avoid them.

I recognise that challenge and we do see and hear a lot from non-domestic customers around the challenges with the standing charge. We are looking again at whether those consequences are the right ones and whether we need to review this further. Fundamentally, it is around ensuring that everybody is paying their fair share and that cross-subsidy between customers is managed.

Jonathan Brearley: It is worth saying that we have two elements: operating costs and network costs. Operating costs are the costs of running the business. There is a judgment you can make, and we have a consultation already out that is looking at whether we can take that off the standing charge and put it on to the volumetric charge. When it comes to networks, though, this is more complex, because we are expecting significant investment in networks over the next five or 10 years, and making sure that those who are wealthier, who could find ways to avoid some of the costs there, is important. There is a real balanced judgment about what happens with networks, but clearly, on operating costs at least, there is some flexibility around what we might do.

Q206 **Derek Thomas:** On 19 January your consultation or appeal for information on the standing charge closed. You talked about the massive response you had. How has that helped? Have you got to a point now where you can say, “This is what we will do in the future”? Are you concerned that people are getting right off the grid altogether now, partly because of standing charges? We have seen a lot of that in my constituency.

Jonathan Brearley: There are two things. If you move all your network costs on to the volumetric charge, that increases that problem, because people will not want to pay for the network costs and so they will, in effect, come off the grid. We will come forward in the coming weeks with a set of proposals that will link together the change on standing charge with what you do to protect those who are most badly off as a result.

Q207 **Derek Thomas:** You closed that on 19 January. I know that you had 30,000 responses. That is not a massive amount; it is big, but it is not massive. You will have expected a response to your consultation, if that is what it was. Why is it taking you a little while to provide some clarity and reassurance to our constituents that the standing charge is not going to be a way of beating up people who are trying to reduce their energy use?



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Tim Jarvis: There are two things we have done since we launched that consultation on standing charges, one of which is to look deeper at the operating costs that form about 40% of the standing charge. We are looking at some options within that that we can implement to try to reduce the standing charge. The more important thing is that—

Chair: As quick as you can, please.

Tim Jarvis: Yes, sorry. The more important thing is that we are tying this up with our work on affordability. Our view is that if you make changes to the standing charges, they have to be accompanied by something that will protect those low-income users who will be most harmed by changes to it. We are looking to see those things in the round and that is why we are bringing that work together in the next few weeks to try to present a package that will protect the most vulnerable consumers while making as much change as we can to the standing charges to meet the things you have identified.

Derek Thomas: Thank you, Chair. You have been extraordinarily generous.

Chair: Too generous. Sir Mark Hendrick.

Sir Mark Hendrick: I am going to be generous, because Charlotte has answered my question but I think from his body language that Lloyd wanted to explore his point a bit further.

Chair: Do you have a question?

Sir Mark Hendrick: Lloyd has, yes.

Lloyd Russell-Moyle: About the standing charge—

Sir Mark Hendrick: About why—

Q208 **Chair:** Hang on. We will come back to Lloyd. We will move on to locational pricing just now.

Do you believe that locational pricing would lead to more affordable energy? There are studies showing that places from Sussex to Shetland, from Stonehaven to the great town of Stornoway, as I said yesterday at Question Time, that probably would benefit from locational pricing. What is the Ofgem view?

Jonathan Brearley: We have published our own study and without doubt, at least in theory, there are significant benefits of locational pricing because you avoid some of the constraint costs we are seeing in the system today. The simple question is, when you build in all the frictions around transition, whether those benefits still hold in the real world as well as theoretically.

The simple perspective is this. You need to build and operate your generation in the most efficient places possible, and there are only really



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three levers to do that. One is by pricing differently locationally. The second is by configuring your network charging and your more technical arrangements, which in a sense have the same economic impact. The third is through the strategic planning that the system operator is doing. It is getting the balance of those right, which is what I think we need to work with Government on through their market reform process.

Q209 **Chair:** One of the things that we hear in and around this area is that renewable energy will provide people with cheaper energy. When we look at the mix of the energy balance, the north of Scotland has the greatest proportion of renewable energy in the UK, but it also has the second or third highest standing charge and one of the highest unit charges going. The benefits are not coming through, are they?

Jonathan Brearley: One of the potential benefits of locational pricing is that prices will go down for customers in Scotland, because there is a lot of generation there and, as you know, the customer base is not as big as it is down south. We think that it could potentially benefit all parts of the country but Scotland would significantly benefit.

Q210 **Chair:** So we would see significant benefits for Scotland but not insignificant benefits, either, to Cornwall or Sussex or wherever.

Jonathan Brearley: Quite. There are plenty of places. In a sense, where you have a lot of generation and less demand, you are likely to see benefits for those localities.

Q211 **Chair:** If everybody is to see a benefit, albeit some people will see different levels of benefit from zonal, who is losing? Will there be pushback from those who benefit from constraint payments, do you think?

Jonathan Brearley: We need to be mindful that this has big distributional consequences for the industry. Clearly, different parts of the industry don't like this, but we as an institution are not fixed on a view.

Q212 **Chair:** Is that because the free money ends, do you think?

Jonathan Brearley: Well, in a sense it is because you will face a loss in some of the plant that exists already. If the wholesale price goes down and you have plant that is running, for example, on renewables obligation, then your revenues go down. It is clear that there are commercial interests here that are very strong, but our job is to support Government to work through that to make the right decision. There are pros and cons of different options.

Q213 **Chair:** But the constraint payments that they are getting in the current set-up are coming directly from the consumer, yes?

Jonathan Brearley: Yes.

Q214 **Chair:** So theoretically, the model is that the consumer pays less on their bills and there is less money for constraint, so the consumers win but less



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money in the pot for constraint payments, so big energy companies lose out.

Jonathan Brearley: Yes. I will just relay their perspective to us. This is an ongoing process, as you know. They would say that uncertainty increases and their cost of capital—their cost of investing—increases, and therefore it is more expensive to build more renewables. This Committee can take its view on the veracity of those claims, but for me the real trade-off is between the transition costs and translating those theoretical benefits to the real world. If you think you can, then it is very compelling. If you think there are easier and more incremental ways to get the same benefits, then you might try to do it that way.

Q215 **Chair:** Where in the world have you seen benefits for locational pricing? Which countries should the Committee look at?

Jonathan Brearley: There are a lot of states in the US that run locational pricing of one form or another. For example, we had a presentation from a retailer in Texas that is very compellingly using these different changing signals, both by time and by price, to create real offers for its customers. That is where you are beginning to see that world of flexibility, where companies can say, "If we can have greater control over the things you do in your home, we can give you the service but give you it at a lower price." I am sure we can follow up with a note, but a lot of states in the US is where I would look.

Chair: Thank you very much.

Q216 **Mark Pawsey:** Mr Brearley, can I ask you about another component that works its way into the standing charge, which is the bad debt provision? That debt is spread across all the energy companies and ultimately those who are paying their bills end up picking up a proportion for those who do not. How is that looking? We had a price spike. There was an upsurge in the amount of bad debt. Where is bad debt sitting now?

Tim Jarvis: I will pick that up. This is one of the biggest challenges we have in the sector at the moment. If you look at bad debt over the last 12 months, it has increased by over 50%. It has gone from around £2 billion to over £3 billion. We are seeing increases—

Q217 **Mark Pawsey:** Those who incurred debt a couple of years ago when the price spike occurred are retaining that debt. They have not managed to whittle that debt down.

Tim Jarvis: Yes. We have seen an increase in the number of people who are in debt but a much bigger increase in the total amount of debt, suggesting those people are getting further and further into debt. We are seeing that in the discussions that I have with consumers and our discussions with debt charities. This is one of the biggest problems in the sector.

Q218 **Mark Pawsey:** How much of the average bill right now is going to cover



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the cost of bad debt?

Tim Jarvis: What we have done historically is that we have spread the cost of bad debt across all customers, which for a direct debit customer has been in the region of around £23 per customer per year. The increase in the bad debt has meant we have had to introduce a temporary additional allowance of another £28 to cover that increase.

Mark Pawsey: So it is £50-odd.

Tim Jarvis: Yes. Going forward, we think that that risks being unsustainable, to be honest. Spreading those costs across the whole customer base in that way is not the best way to tackle the underlying causes of that debt.

Q219 **Mark Pawsey:** I want to move on. Mr Brearley, you spoke about it being your job and the job of the energy suppliers to protect those who are most badly off, but isn't it the state's job to do that? I put it to you that at this stage energy is going through a transition. There is an awful lot for energy companies to worry about. They do not have access to data from DWP and HMRC, who know who the targeted people should be. Shouldn't we really be saying, "Let the energy companies get on with delivering energy and let the state, through its existing mechanisms, provide people with the right income to be able to afford to pay their energy bills"? Wouldn't that be a better way forward?

Jonathan Brearley: To be really clear, what can Ofgem and the industry do? We need to make sure that the companies are treating people well and we need to make sure that, within the system that we have, we have the most efficient costs. In a sense, I agree with you. Forget for a second the mechanism. It is Government's role to be making sure people can afford to pay the bills that they have.

Let me just lay out the arguments we are hearing in the affordability study. The question we get asked, which I think is very similar to the question you are asking, is why can't we just do this through the benefit system? That is what it was designed for, right? The benefit system was designed to cover costs for people who could not afford to pay them for themselves. There are two questions that are raised. The first is whether or not income is well correlated with energy use. Again, we are focused on this group of people with a low income and high energy use. Secondly, can the benefit system respond quickly enough when you see the sort of price spikes that we have seen? What we are saying is not that Ofgem or the industry should be doing this but that Government should consider how they want to tackle that problem.

Q220 **Mark Pawsey:** All right. We have had evidence about having a social tariff, under which two customers in identical houses, side by side, would be paying different prices. The DWP data is not available to the energy companies to determine who should be getting the benefit of that.

While we are on this, I know it is not a policy issue for you, but I want to



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ask you where we go with the price cap. Five years ago you sat in front of a Committee that I was on at the time and said, "It's all about getting customers to change, getting competition in the market." We have given up on that because we have a price cap. I understand that it is Government's decision whether we retain the price cap and I suspect that, having put it in place, frankly, we are never going to get rid of it. Where do we go to get some competition back between providers, which seems to have been lost?

Jonathan Brearley: Let me outline two of these things and then perhaps Tim might want to pick it up. One of the things we have asked Government and been quite vocal about is the better use of that DWP data to better target. In the 21st century we should be better able, however we do it, to target support to different customers. We want to work with DWP and, indeed, with HMRC to make sure we can design a system that is much more adaptable than the one we have today.

In terms of competition, the other thing you know we want to look at, which we also are out discussing, is how we might reform the price cap so you can make that market more vigorous. That is much better done in a world where you know the most vulnerable are being treated reasonably. The problem at the moment is that that group is struggling and that means the rest of the regulation becomes very tight. Tim, I don't know if there is anything you want to add to that.

Q221 **Mark Pawsey:** Where are we with switching? My impression is that nobody is switching any more because the price is the same whoever you go to, so why would you switch?

Tim Jarvis: We are starting to see some increases in switching, but you are right, they are low and they are much lower than they were before the crisis. What we did during the crisis was introduce a lot of regulation to try to stabilise the market. We have gradually been unwinding that. We have removed what we called the market stabilisation charge, which was certainly a dampener on competition. We are just about to remove the ban on acquisition tariffs. We are looking to open the market up carefully now that we have stabilised the market and we have put things in place to make it more resilient.

You are right that to get the sort of competition that you are talking about we need to open up the market to some of the time-of-use tariffs and things like that that will become available when we have market-wide half-hourly settlement next year. To do that, we need to look at the group of customers who we know are struggling to pay and the way the price cap works at the moment, which is a bit of a one size fits all.

Jonathan Brearley: You have been through the crisis with us, in a sense, and one of the big confusions with the price cap was, "Why it does not subsidise bills for the poorest?" It is not designed to do that. Therefore, it ends up with people misunderstanding what the regulator can and cannot do.



Mark Pawsey: Thank you.

Chair: Thanks, Mr Pawsey—super-efficient.

Q222 **Dr Coffey:** Mr Brearley, it might be useful if you could write to the Committee explaining how the Digital Economy Act 2015 was supposed to open up the data exchanges.

Jonathan Brearley: Yes.

Dr Coffey: We do not have time to dwell on that now, but—

Jonathan Brearley: Yes, that would be very helpful.

Dr Coffey: It would be very useful to understand how that is being used or not being used and why.

Jonathan Brearley: I would be very happy to.

Q223 **Dr Coffey:** Turning more broadly to aspects of costs, are we putting enough focus on bearing down on the cost of infrastructure? I know for some people it can be infuriating when we are asking people to turn off their turbines and at the same time we are getting gas stations fired up even more to make good that gap. One of the concerns is why it took a Bloomberg report on how UK energy prices are inflated by wind farms, which was published a few months ago, to make everybody aware—or make you aware—of the grid transmission cost inflation.

Jonathan Brearley: We have a number of enforcement cases out addressing some of the issues that were raised by Bloomberg. We fined a company around £30 million for the behaviour they had. We have had to bear down very heavily on the way companies behave in the market, which is the balancing market. We also introduced new rules that made it much harder to do what some companies seemed to be doing, which was withdrawing a plant in the morning and then firing it up in the evening when there was a much higher price because of the scarcity. There is a lot we have done around that.

In terms of infrastructure in general, the big driver of costs over the next 10 years is going to be the build of the network that we need to get to net zero. Through our price controls, we have reduced shareholder returns by about half, which has meant to date that all that new investment has taken place at roughly the same cost as would have happened for customers under the previous regime, so costs have not changed. Clearly, as we build out more, those costs are going to increase, so we need to bear down on shareholder returns and make sure the money that we give companies is invested in the infrastructure that is needed.

Q224 **Dr Coffey:** We will come back to that in a moment, but keeping with constraint payments, you said that you have issued fines. Are you planning to set a cap on constraint payments to individual generators?



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Jonathan Brearley: We are not planning on issuing a cap. Ultimately, those decisions around pricing are made by the system operator, but what we will do is look at behaviour in the market and make sure we respond.

Q225 **Dr Coffey:** Do there then need to be targets set—I do not know what discussions you have had with the ESO—on connection of renewable energy and caps on things like these grid constraint costs? At the moment they seem to be benefiting from both.

Jonathan Brearley: We have a market for the way people bid into the balancing market. We need to make sure that works and that is efficient, I agree. We need to make sure that new technologies are able to bid in and undercut some of the bids that we have seen appearing there.

On connections, we need to continue to bear down on the queue. I do think the queue is too long. I do think there is a lot more to do there, and we need to weed out the projects that are not viable to let the ones that are viable get built quickly.

Q226 **Dr Coffey:** Going further with the costs of infrastructure, the ESO has an important role in this, but so do you. There has been a debate in Parliament on the interaction between you. There is considerable evidence coming through of other countries adopting technology that is far more energy-efficient in the transmission, different cabling and similar, yet we do not seem to be using that in this country and it does not seem to be in the plans, even though, in effect, we are wasting electricity. Tell me more about how you are going to put your emphasis on the ESO on making sure that, even if it does not happen in the next year, overall we are going to a whole-system approach of having cheaper energy.

Jonathan Brearley: To step back from this, we have, I think, taken a very different approach in the last few years to how we build out infrastructure. Clearly, the system operator has the role now to plan that, which is not a role as extensive as it had before. We have seen already the early versions of that plan. We had something called holistic network design and we also had something called the transitional strategic network plan. Both of those lay out early versions of this process, but next year we will see a further two iterations of those. Our job, as those are produced, is to scrutinise them and make sure they are value for money. We are pushing the system operator to make sure they are looking at new technologies as part of that.

You will have heard, for example, National Grid come forward with ideas as to how you might be able to produce higher voltage but fewer wires. That is not important just from a cost perspective; you know that is important from an environmental perspective as well. We will play our part in that and we will make sure the system operator is doing something that is value for money.



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Chair: Excellent. Thank you. Very efficient again. Lloyd Russell-Moyle, the next six minutes are yours.

Q227 Lloyd Russell-Moyle: Companies have told us that they would like to implement a non-standing-charge tariff but your price cap with the standing charge, which is not capped in the same way, does not allow them to move the costs between the two unless they remove it totally out of the price cap regime, which most customers do not want. Why aren't you able to be more flexible within that so that the market could make the decision rather than you having to consult about whether standing charges were put in the right places?

Charlotte Friel: You are right to make the distinction between the tariff under the price cap and those outside. First, to clarify, for the tariffs outside of the price cap, suppliers can structure those however they wish. We are already seeing an increasing proportion of low or zero standing charge tariffs available. If you shop around, you can save about a third if you are willing to take on a fixed contract outside of the price cap on your standing charge.

When it comes to the price cap, we reflect what those fixed costs would lead to in terms of a standing charge but we do not stop or require suppliers to charge that standing charge. If they want to charge a lower standing charge or, indeed, a zero one, they can underneath the price cap. The challenge—

Q228 Lloyd Russell-Moyle: But they can't put that on to the per-unit charge.

Charlotte Friel: Yes, exactly. The challenge is that where you have 85% of the market on the price cap, you do risk making a loss, and you would want to increase the unit rate. There they have to come to us for approval.

Q229 Lloyd Russell-Moyle: They have to come to you for approval. Would you grant them approval? British Gas said that they would like to get rid of it and put it on the per-unit charge. If they came to you tomorrow, because that is what the chief executive said that he wanted to do, and said, "We would like to do this but we can demonstrate to you the average customer will be no worse off," would you say yes?

Tim Jarvis: Yes. The test that we would look at is that overall they were staying within the price cap. If they could demonstrate that they were doing that, then we would, of course.

Lloyd Russell-Moyle: Fantastic. I think that we should write to British Gas and say that we look forward to their application.

Chair: Good idea.

Q230 Lloyd Russell-Moyle: EDF, I think, said that they have implemented a social tariff and they would quite like a social tariff to be rolled out. Why do you think that companies are not rolling out social tariffs when one of



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the leading energy companies say that they would like it and it is possible?

Jonathan Brearley: Every company has set aside funding to support vulnerable customers. Some do it through tariff reductions; others do it through grants to customers who are struggling. We work with them and we would encourage all that behaviour, but the truth is that that is really limited and not well targeted across the market. What we are trying to think about is something that is more systemic here, more built for the long term and more consistent.

Q231 Lloyd Russell-Moyle: Fantastic. Do you think that you have managed the market well? You have got some relief at the moment because energy prices are going down—nothing to do with you, really; nothing to do with any of us here. It is just the global market. If we had the same issue again, would you be battered? Would we have all the same problems, or have you managed the market so that it is in a better and stronger place than it was when we entered the initial energy shock? If so, what is different?

Jonathan Brearley: Bluntly, what has affected customers most over the last two years has been that massive bubble in prices that we saw, which again Ofgem in itself does not control. If you go back to 2021, when we saw the 30 suppliers fail, the thing that has changed is we have introduced banking-style regulation to make sure that the sector is far more financially resilient than it was before. I cannot guarantee that no company will ever fail, but we do not see the practices that we saw pre-2021 that led to the problems that we saw there.

Q232 Lloyd Russell-Moyle: Bad debt is a problem for the system, but fundamentally for a consumer it does not really matter if their energy supplier goes bust or not; they just move on to the next one, particularly now that there are not huge accounts held for each customer.

Jonathan Brearley: The issue was that, if you faced another big price spike, because we have a price cap, when we moved that customer we had to pay the difference between the price in the market and the price cap. That was several billion pounds of cost that ultimately came back to customers. We think we have mitigated that issue.

The second thing we have done is borne down much more heavily on supplier behaviour to make sure that standards are beginning to increase, particularly in the way that they treat vulnerable customers. My chair and I will be here in a few weeks' time and we will talk about this a bit more. There is a continued effort to raise service standards within the market to where we would like them to be, but that is one thing that we are beginning to focus on now. Do I think the market is in a better place? Yes, I do. Can I guarantee there will be no failures? You can never do that.

Q233 Lloyd Russell-Moyle: It is still virtually impossible to move from a pay-as-you-go meter to a bill meter. It is very easy to go in one direction but



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almost impossible to go in the other direction. In terms of normalising vulnerable customers, it is not possible. We only have a minute left. You have talked a lot about the suppliers. Is there nothing that we can do to insulate domestic energy users from the global markets, particularly from the gouging that the wholesale market has made? Is there nothing that we can do within your regulation rather than just the windfall payments?

Jonathan Brearley: What were the lessons from the gas crisis? Starting from the top, the biggest problem is that this country, like a lot of countries in Europe, was massively exposed to gas, and—

Lloyd Russell-Moyle: We peg our electricity to gas.

Jonathan Brearley: And we have a market that pegs electricity to gas. Step one is building out and diversifying our supply, making sure we build out, we have more renewables in the system and therefore we are less reliant on gas. Step two: in a sense there is already a tool to make sure that those wind farms are not pegged to gas, and that is the contracts for difference regime that is already in place.

What you saw were two different kinds of generation. If you had a contract for difference, you were paying back the customer because the market price was here and your strike price was there. If you had a renewables obligation, you had a subsidy over and above the market price and, yes, you were making a lot of money. Throughout the crisis, including with the highest levels of Government, we tried to find different regulatory mechanisms that would address this, but the truth is the best and most efficient way to address that is a windfall tax and taxing the profits at source.

Q234 **Lloyd Russell-Moyle:** So you think we should continue to have that mechanism of a windfall tax in case we are to see further price hikes.

Jonathan Brearley: I think that you guys know that regulators should not comment on policy and what they definitely should not do is comment on tax policy. I will leave that to my elders and betters elsewhere.

Lloyd Russell-Moyle: You can't blame me for trying.

Q235 **Chair:** I have a quick question, on the back of what Mr Russell-Moyle has been saying, on the price of gas and the price of electricity. Gas is about 50% of the mix. When the price of gas went up the wind did not become any more expensive, yet the price of wind went up. It is the same with solar prices: the price of the sun shining was not any greater. Presumably, the nuclear price was much the same. Things are so tied to gas, regardless of what happens. We hear so often, and it is misleading consumers, that if we get more renewables on the system, we should get cheaper energy. That is not the case, because we are all hostage to gas. Don't we have to decouple and have two types of energy market coming in here, or even for the source or type of energy?



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Jonathan Brearley: We looked at all the proposals around separating the market. There are technical reasons why we do not think that is feasible, but the contracts for difference—

Chair: Then we are still hostage to gas.

Jonathan Brearley: Well, except for the fact that when you have renewables on contracts for difference—when you have them on the regime that was put in place in 2017, which I designed a long time ago—that does do that.

Q236 **Chair:** I am very conscious of the time. If a Putin-Ukraine event happens again, have we got the same mechanisms in place that are going to cause the same things, or have the mechanisms changed?

Jonathan Brearley: The mechanisms for new plant have changed, and they have been changed for a while now, but those who are still on renewables obligation will be subject to that.

Chair: We are still in hock to world events on gas.

Jonathan Brearley: That is partly what that REMA process needs to consider.

Chair: That is a governmental change to happen.

Jonathan Brearley: Yes.

Q237 **Mark Garnier:** Jonathan, can I talk about insolvency and failures of energy supply companies? According to the Public Accounts Committee, since July 2021, 29 energy suppliers have failed, affecting around 4 million households, with customers left to pay £2.7 billion-worth of charges because of those supplier failures. Why aren't their shareholders paying that?

Jonathan Brearley: Because of the regime that we had, what you did is move customers to new companies, and when you moved them to a new company you had a difference between the price they could charge and the price that was charged in the market. The regime that we had socialised those costs. Where we had legal recourse, we would go back to the residual companies, but most of those companies simply did not have any funding to be able to pay for that, so that was socialised among customers.

Q238 **Mark Garnier:** So the shareholders do lose all their money.

Jonathan Brearley: In most cases. There were some cases where there was residual value and we did not have the legal means to take that back.

Q239 **Mark Garnier:** Okay. That is fair enough. I understand that. One thing that slightly bothers me about this is that an accountancy firm has claimed that "credit risk scores and balance sheet information of all



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domestic electricity/gas licensees registered with Ofgem reveal that of the 22 remaining suppliers (excludes Big Six...) of electricity and gas to UK homes, 12...have negative assets on their balance sheets". How is it possible that a company can be allowed to be trading insolvently?

Jonathan Brearley: I will ask Tim to come in on the detail here, but we are moving the sector to a more resilient place through our financial regulation.

Q240 **Mark Garnier:** How did we get into this position in the first place? Any executive or non-executive director of a company that is trading insolvent has a fiduciary duty to report that. How have we allowed it to get to that situation?

Tim Jarvis: It is difficult to comment on the insolvent position of a company in isolation, but the rules that we are putting in place now are to move to a situation where companies are holding capital to protect from the risk. We had three forms of costs, in a way, that fell on consumers during the crisis and the main one of those was the wholesale cost, for the reasons that Jonathan has just given. We now—

Q241 **Mark Garnier:** Just to be absolutely clear about this, one of the reasons a company would go bust is it was guaranteeing to give electricity at a certain price and the current price was far higher and, therefore, you were then transferring that on to the next company, but somebody had to pick up the difference between one and the other. Is that right?

Tim Jarvis: Yes, and they had not hedged and they were not holding sufficient capital to cover those costs. Those are the rule changes that we have introduced.

When companies come into the market, we have rules where we monitor their build-up and the extent to which they can take on customers appropriate to the risks that they are taking on. We have a whole regime in place now to monitor those suppliers and to make sure that capital is being held and they are moving to the position that we—

Mark Garnier: New ones?

Tim Jarvis: Yes, and the existing ones.

Q242 **Mark Garnier:** Yes, but if you have, in theory, 12 of these companies, according to this accountancy firm, trading insolvent, they are ahead of the game because they do not have enough capital on their balance sheet in order to cover their liabilities.

Jonathan Brearley: I think the best thing we can do, if you don't mind, is to pick up that report and write a note to the Committee on how that compares with our analysis. I think that we need to get under the skin of what—

Q243 **Mark Garnier:** I do completely understand the point. If you have a contractual obligation with a supplier, they go bust and you want to



maintain that that is okay, I can see that there is a cost that then moves on. However, the market ends up getting completely distorted and you end up with some very peculiar outcomes. That is that you have, according to this accountant—and we need to dig this out if we can—a number of businesses currently trading that should have gone bust. If new businesses coming into the market—obviously, we want and need more competition—now need a higher level of capital on their balance sheet, which is a good thing and we give double thumbs up to that, it does mean they are at a disadvantage when coming into this market if some people are already in the market who presumably will be given time to strengthen their balance sheets.

Tim Jarvis: That is exactly the conundrum, in a way. We are trying to get the balance right between making sure that we have a resilient market and we are giving the market sufficient time to move and encourage new people to come into the market, and making sure that the rules are sufficiently robust. We do monitor the supply companies very carefully. I would be very happy to look at these 12 companies, but we are monitoring all the companies in the supply market very closely against these new rules.

Q244 **Mark Garnier:** To me what is incredibly important is that if you are going to adopt a capitalist system—I am a Conservative MP and I am wholly behind a capitalist economy; I think it is a great thing—you have to play by the rules, and rules that everybody understands. What bothers me is that you get to a situation where a company has a deficit on its balance sheet and the answer to that is you have to go to the shareholders and have a rights issue or a placing in order to raise more capital. What I am worried about is that you are allowing these businesses to carry on without doing that. The whole point about being a shareholder is that you get a fantastic return when things are going well, but you risk the farm because of that inherent risk of the negative position on the balance sheet, and it does not look like they are risking everything

Tim Jarvis: That is precisely the risk that we brought in these new rules to deal with and we are monitoring against them. As I say, I am very happy to write you separately on this and look at this report, but we have brought in rules to ensure that companies have sufficient capital on their balance sheets for precisely that reason.

Jonathan Brearley: It is worth saying that we are in a situation that is quite similar to the banking regime when that started out. You have companies in different places and you are always going to have a balance between making sure you have very high bars and very firm rules and knocking companies out of the market, or trying to bring them to a better place. We are in a transition—

Q245 **Mark Garnier:** I spent three years on the Parliamentary Commission on Banking Standards and we spent an awful lot of time trying to build resilience into the banking system, and capital adequacy ratios were one part of that. You do not seem to have the same capital adequacy ratios



as the banks.

Tim Jarvis: We do not have the same capital adequacy rules as the banks because the risks are different, but we do have a capital adequacy regime, which I am very happy to write to you about.

Mark Garnier: Thank you.

Q246 **Vicky Ford:** Say I was a customer of a company that went bust and I was moved on to another company. I was told that currently there is a protection for such a customer that makes sure that they are put on a decent tariff. I was told that that protection is about to be changed so that such a customer could be left on some historic high tariff. I was told that this protection is about to be removed.

Jonathan Brearley: If I understand the question correctly, that is not the case. Every domestic customer gets a price at the price cap.

Q247 **Vicky Ford:** I understand about the price cap, but if I am moved to another company that is offering a price that is less than the price cap, I should be offered what they are giving all their other customers, not be left on some legacy tariff. Do you see what I mean?

Tim Jarvis: I wonder whether what we might be talking about here is the ban on acquisition tariffs. This is about the extent to which the suppliers can charge different prices for new customers versus customers that are already on the system. We introduced that ban on acquisition tariffs as part of our work to stabilise the market, essentially to try to prevent customers from moving around the system in the crisis; it was intended to stabilise the market. The reason we have a ban on acquisition tariffs is to protect loyal customers. What we have in the energy market, which is different from any other market, is a price cap. That is the mechanism that is designed to protect—

Vicky Ford: So the ban on acquisition tariffs is about to be removed.

Tim Jarvis: Yes. That is the thing that is about to be removed.

Q248 **Derek Thomas:** In response to the Chair on the global gas price, Jonathan, you very briefly touched on the contracts of difference. Can you just clarify this for me? In the contracts of difference, if the wholesale gas price is quite high, if you are delivering wind or solar, you actually get the price of the contract for difference, not—

Jonathan Brearley: You do.

Derek Thomas: So where does that extra money go? When the customers—

Jonathan Brearley: It is paid back to customers.

Derek Thomas: Even though the price is high?



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Jonathan Brearley: If the market price is high, that money goes to what is called the LCCC, which administers these contracts, and that is paid back to customers. For those contracts, that actually was a discount on the price cap throughout the crisis, not a cost.

Derek Thomas: How does that get back to customers?

Jonathan Brearley: In a sense, that is calculated as part of our price cap calculation, so it goes through the regulated pricing.

Q249 **Dr Coffey:** I should declare that there are proposals for interconnectors in my constituency. Are we net positive or net negative on energy in terms of our current electricity interconnectors?

Jonathan Brearley: Do you mean in terms of price or volume? Things coming in and things coming out?

Dr Coffey: Yes.

Jonathan Brearley: I will have to check. Certainly the price differential would suggest that we have more imported, but I will need to check that.

Q250 **Dr Coffey:** There is a lot of work being done with other European Union countries on interconnectors. You recently published judgments about several interconnectors, two of which you decided to support. Are your concerns solely on short-term consumer costs or is there more to it?

Jonathan Brearley: Let me talk about the history of how we have calculated interconnectors and how we come to these judgments. Up until this round of consultations, we have had a fairly easy decision to make in the sense that most European prices have been systemically lower than GB prices, therefore it is net positive for customers, not just in the short term but over the lifetime of the interconnector. The challenge we have with this set is that the picture is more mixed when we look at how generation might change over the next 10 or 20 years. We have said that when you look at just that analysis, you end up with those two, but we are in the process of examining the other benefits of interconnectors, which really are around their ability to add to flexibility—to respond to short-term changes as we get more renewables in the system—and security of supply. Although we have identified two, it is possible that through this consultation we will identify more.

Q251 **Dr Coffey:** I appreciate that your primary purpose is to make sure we have an economic system that works and cheaper bills. Do price and cost effectively trump anything else? I should say to the Committee that I am trying to campaign as an MP to get the connections to go to brownfield sites rather than new greenfield sites.

Jonathan Brearley: In a sense, we do not get directly involved in the individual judgments but, no, cost does not trump other objectives in the market. We have a new net zero duty that was brought to us through the last Energy Act that came through Parliament and we take that really



seriously. In a sense, what we are trying to do in my mind is four things: first, make sure that we can get to net zero; secondly, make sure that we can maintain security of supply; thirdly, manage costs and make sure that we are as efficient as we can possibly be; but also make sure that the system is providing all the other things that customers need, including high standards of service and all the environmental considerations that go into the system as a whole.

It is not our judgment but when we consider the sorts of proposals that come from network companies we are cognisant that they need to talk to local communities to make sure as best they can that they can adapt the infrastructure. The issue is that some of these cost differentials are very big.

Q252 **Dr Coffey:** You are a non-ministerial department. You do, by the Environment Act and the regulations that were put in place, have a biodiversity duty. How are you accounting for that as well as your net zero?

Jonathan Brearley: Everything that we do takes into account all of those different aspects. We do not get involved in the individual decisions. What we say to the network companies is they need to work with all the environmental agencies to get infrastructure built, but, in a sense, our job is to balance those things against other objectives.

Q253 **Dr Coffey:** Tell us more about relationships with regulators in other EU countries.

Jonathan Brearley: We work very closely with other regulators. I am off to Lisbon on the bank holiday Monday next week to talk to other regulators about our shared challenges. I have spent time in the US, I have spent time in the far east talking to different regulators, and all I would say is that we have a shared set of challenges. In the different things that we do, even though we operate different regimes, we are all facing the same kinds of things in making sure that each of us can get to net zero at the lowest cost.

Q254 **Dr Coffey:** Interconnectors ultimately make money on congestion revenues, so do they keep their energy in Germany or are they going to sell it to the Brits? Ultimately, we are desperate to get the energy at the cheapest cost possible. How is it that our pricing for consumers can be attractive to try to make sure we get that supply ultimately coming our way? Or, going the other way, do we have a domestic comes first approach? Not quite British-generated energy for British consumers, but although we are trying to get some where there are energy gaps, ultimately, you would like to think that the energy infrastructure that our consumers are paying for is supplying us first.

Jonathan Brearley: Yes. I think there is a trade-off there, though. You have to remember that in the new regime that we are going to have across Europe we are going to have a lot more inflexible generation that generates when the sun shines and the wind blows. We have a set of



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shared systematic risks and the best way to deal with that is to make sure we have connected markets that can manage it.

When we look at an interconnector, we do look at the benefits for British consumers and we only sign them off when we think that will make British consumers better off. The question is how you do that and how you take account of security of supply as well as cost.

Q255 Dr Coffey: The reason I ask about the EU regulator relationship is if we were having an energy problem in this country, would you switch off the interconnector so they could not export?

Jonathan Brearley: We all have emergency powers that allow us to do that in extremis, but we are all very mindful of the impact that has and the relationship that creates. When we had the gas crisis, when we thought there might be a security of supply problem, we ran a whole set of scenarios where we assessed what might happen in those circumstances. In most circumstances, you are better off co-ordinating closely and making sure that everybody has enough supply and that the problem is shared.

I will give you a very practical example. There were times when electricity was tight and the British system operator and the French system operator would work very closely to make sure the French peak was covered at a certain time and interconnections were shifted to make sure the British peak was covered. If we get into a tit-for-tat, that is risky.

Q256 Dr Coffey: Okay. Is Ofgem engaged on decisions more generally on the North Sea as an energy resource?

Jonathan Brearley: Yes. We are aware of all of the various fora that look at much more meshed grids in the North Sea; we are participants in that. We do not have a firm view of whether that is good or bad, but it is something that we are keeping an eye on.

Q257 Mark Garnier: You have just granted two interconnectors. I was recently in Belgium and Denmark, and we met with the Belgian Minister. They were very keen on the interconnector and there are lots of interconnectors. I think seven were in the mix; of those seven, we have only allowed two. There was a suggestion that part of the reason for that could be looking after vested interests of UK producers so that you did not flood the UK with cheap energy and thereby undercut the domestic producers. Have you unwittingly been intervening to distort the market, perhaps, by not allowing those other five interconnectors?

Jonathan Brearley: In every previous round of interconnectors, we have had exactly the lobbying you would expect from domestic generation and we have decided to let them go ahead because we knew that European prices systematically were lower than British prices.

Mark Garnier: Which is good for British consumers but bad for British



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producers.

Jonathan Brearley: Exactly. Now, on this group, that is much more of a mixed picture, which is why we are looking more broadly at the impact they can have.

Q258 **Mark Garnier:** Who is your customer, the British producers or the consumers?

Jonathan Brearley: The consumers. That is why we have always signed off interconnectors. This time the price dynamics suggest there may be a risk that that is a much more mixed picture and that British consumers will not necessarily benefit on price. What we want to look at alongside price is how we make sure that we can have the flexible system that we need and that we get the security of supply that we need. Just on that last point, it is a very open consultation, so we encourage them to come back to us.

Q259 **Lloyd Russell-Moyle:** I want to follow up on Vicky Ford's question, because she got to the question but she did not get to the justification. Why is it better that someone who is loyal gets charged more than someone who is new?

Tim Jarvis: We are consulting at the moment on removing this ban on acquisition tariffs, and it goes back to the point—

Lloyd Russell-Moyle: You are consulting on it or—

Chair: Listen!

Tim Jarvis: We have a "minded to" position that we are going to do this, and the reason that we have said this—and it goes back to the points that Mr Pawsey and Mr Garnier were making earlier about competition in the market—is that we are seeing very little switching in the market and very little price competition. One of the reasons for that is that it is not possible for suppliers to offer teaser tariffs or new tariffs to try to attract new customers because of this ban.

That ban was introduced as a measure to try to stabilise the market. In a market that is regulated differently and perhaps does not have a price cap, you might well look at a ban on acquisition tariffs to protect loyal customers. Our view at the moment is that we think that the price cap was specifically designed to protect loyal customers. That is our rationale.

Jonathan Brearley: I think it is worth saying it is a consultation so we are hearing lots of views on this.

Chair: Vicky, if you can do it within 10 seconds, I will you in.

Vicky Ford: I am not convinced and I would like to have more of a hearing on this. I think it is something that the Committee should have a view on.



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Chair: We will come to that in the next meeting.

Vicky Ford: Companies went bust. Customers may want to stay with their provider, and they—*[Interruption.]*

Q260 **Chair:** Just before we suspend, I want to end where you started, Chief Executive Brearley, with the standing charges for electricity. There are some people—I mentioned this to Lord Callanan—in the north of Scotland where you have a 59p standing charge, and that is their only form of energy. For a unit of energy—a kilowatt-hour of energy—electricity is 28p and gas is 7p. Those costs are paying for some of the gas costs. We have people who can only get electricity having a standing charge about 50% higher than for gas, and some of those are gas costs, apparently. In your consultation, is there not at the very least a case to equalise the standing charges for electricity and gas?

Tim Jarvis: Those are exactly the sorts of options that we are looking at, in short.

Chair: That is music to my ears, as indeed is the bell. We will suspend for 15 minutes.

Sitting suspended for a Division in the House.

On resuming—

Examination of witnesses

Witnesses: Amanda Solloway MP and Jane Walker.

Q261 **Chair:** Good afternoon and welcome back to the Energy Security and Net Zero Committee. I will allow our second panel to quickly introduce themselves.

Amanda Solloway: Amanda Solloway, Minister for Affordability and Skills.

Jane Walker: I am Jane Walker. I am the director for energy affordability and consumers.

Q262 **Chair:** It is fantastic to have you both here today. We look to you, of course, as the fount of all knowledge for all questions that we will ask. Minister, are you concerned that electricity bills, specifically the standing charges, have increased by 119% since the winter of 2020?

Amanda Solloway: Yes, absolutely. As the Minister for Affordability, clearly it is one of the biggest things on my mind. We have issues like standing charges—incredibly significant, and I will come on to that in a moment. Another big thing on my mind is debt. We know that it is a threefold problem: there is preventing people getting into debt, there is people in debt, and there is bad debt. We will probably come on to that.



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In terms of standing charges, one of the things I felt very strongly about, and certainly the Secretary of State did as well, is that we really should be calling on Ofgem to lean into this. As you will have seen, there has been a call for input, which I think closed on 20 January, so quite a while ago now. We had over 30,000 individual responses and I think there were 47,000 responses altogether, so I do not think it is just me who is concerned about standing charges; I think it is something that is indicative of the whole energy sector.

Q263 Chair: Your colleague, Lord Callanan, said something similar before. Ofgem mentioned today that it is open for consultation and I particularly drew their attention to the iniquitous area of electricity in rural areas where there is no gas. In the north of Scotland, where my constituency is, if you have gas you will have a standing charge of 40p, but if you are on electricity, you will have a standing charge about 50% more, at 59p. Your gas cost, if you can get it, which most people can't, is 7.2p per kilowatt-hour compared with electricity at four times that cost.

The basic point about the standing charge is that there is a huge inequity of geography and energy type. The point I put to Ofgem, as you may have seen at the end of the previous panel, was that surely at the very least, because there are some costs on the electricity standing charge where people have no choice that reflect some gas costs, the standing charges should be equalised. Electricity consumers, given the rise that we have had of 119%, should actually be looking at something more like the gas price at 40p. What is your response to that argument?

Amanda Solloway: There is a whole discussion to be had around this. One of the things I am trying to do is push for the findings to be announced earlier, because I think we should be having that very discussion.

It feels as though there are lots of things around the standing charges that we should be looking at, but also, from a location point of view—Jane, I know we have been doing quite a lot on thinking about where those locations are—is there a way that we can allow for where people are accessing that energy? So, yes, it is certainly something that we want to do, and we have done a consultation on that recently. I will just point out that, as a result of the standing charge call for input, Ofgem is scrutinising certain elements even more, and that definitely should and will be one of those.

Q264 Chair: You seem to be heading in roughly the same direction as Lord Callanan, who is not here, but I thought he was very fair. He was quite blunt in his response, saying that the argument was quite strong, basically, and there was an essential unfairness. I do not want to say it any more strongly than that, because he is not here and I might possibly misquote him. I don't want to do that, obviously. But you seem to be heading in that direction that you feel that there is some unfairness. Obviously, you do not want to make yourself hostage to anything, and I understand that.



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Amanda Solloway: No, I do not want to make myself hostage and I do not want to pre-empt what the findings will be. At the same time, I think we have to apply common sense, but also adhere to the information that we are getting. I do not know if you want to come in on that just a little bit further, Jane.

Jane Walker: There are two things here, aren't there? There is the network cost element, which I think you are talking about now, where—

Chair: Where you have no choice; you have to have electricity.

Jane Walker: At the moment we have a cost-reflective system and it does cost more in rural areas. I know Ofgem are looking at that as part of their standing charge review.

Q265 **Chair:** The energy costs very little in rural areas. In the north of Scotland renewable energy is about 90%, so it is the cheapest energy going, but still we have unit prices much the same.

Jane Walker: Obviously there is the distribution element and then there is the wholesale cost element. As part of our review of electricity market arrangements, we have been looking at the wholesale cost element, essentially, and whether or not we should be looking to introduce locational marginal pricing. In our second consultation, which closed just a couple of weeks ago, we set out that we were continuing to explore that—potentially moving to either a zonal model or a national model with some changes. We do see that there are benefits to consumers overall as a result of that from our initial analysis.

Amanda Solloway: Just to be clear, in a way there are two parts to your question that we are answering. One of them is around the cost and, as you quite rightly say, the standing charge could be more expensive where you are talking about than it is in London, for example.

Chair: It is 20p cheaper in London.

Amanda Solloway: Exactly. It is because of the cost of getting it from where it is to where it is going to. The other side that we are looking at is the one that Jane has just described.

Q266 **Chair:** The gas standing charge, notably, is uniform across the United Kingdom. I could accept that idea about getting the energy from A to B and the cost in rural areas if the energy that was produced in rural areas was cheaper in rural areas, but it isn't.

Amanda Solloway: We are certainly looking at that.

Jane Walker: Yes, that is exactly one of the things that is being looked at.

Amanda Solloway: It is important that we do that. Just for your assurance, I have regular meetings with MPs from across the country and certainly colleagues have been representing that very issue.



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Q267 **Chair:** On another aspect of the standing charge, are you concerned that it inhibits the consumer drive to reduce energy demands because it is just a fixed cost and they can't do anything about it? If you reduce your energy, you do not reduce your costs, because the starting charge remains the same—well, you do, of course, to some extent.

Amanda Solloway: I watched the earlier session and have also been listening to other sessions that you have had on this subject, and I am looking forward to your findings, because I think it opens itself up to discussion about where we should be. The challenge is thinking about what the unforeseen consequences will be in terms of the standing charges. One of the things that I am very keen not to see—and I think we are on the border of it possibly happening—is everything seeming to go on standing charges. That is just not acceptable.

Q268 **Chair:** Such as the energy debt?

Amanda Solloway: Absolutely. I can understand the reasons why that has happened, and Ofgem has been very clear, but from my point of view as the Minister for Affordability, there is a danger that it becomes an easy way of doing it: "Oh, let's just put it on the standing charges." I really do not want to see that happen.

Q269 **Chair:** Because that means that those in fuel poverty are paying for the debt.

Amanda Solloway: Yes. We do not want unforeseen circumstances from just removing the standing charge altogether. However, I also do not want to see the thinking, "Well, we'll just put this on here, just put that on here, just put this on here," because that adds a burden to everybody. There is also a case to be made that if you go on to unit price—I know you have had discussions around this—people in more vulnerable circumstances, perhaps from a health point of view, could be affected inadvertently.

We are trying to get to a balance—I guess it is the challenge for Ofgem—between thinking about whether the standing charges are fair, which is where the call for input will be really helpful, and, on the other side, what the consequences would be if we said they should go elsewhere, and where else they should go.

Q270 **Lloyd Russell-Moyle:** Seeing as already, if you have medical needs, you can claim back the differential in your energy bill—something that Ofgem has not included in its calculations when saying that everyone will pay £100 more—and there are other mechanisms to help those people, are we trying to create straw-man arguments just to try to destroy the idea, rather than finding ways through to a situation where the standing charge is really only for the core infrastructure and everything else is on the unit charge?

Amanda Solloway: I think that is a fair comment. I talk with DWP and I have had conversations with Treasury and Health. As you rightly say,



benefits and support will be given. It could be through the disability allowance, as an example, and there might be other ways that people are getting support. It is a more complex problem than it looks at first and you do not want to be adding a burden in one place that takes a burden off in another place.

Q271 Lloyd Russell-Moyle: We heard in the previous session that one of the groups of people that they think might be disadvantaged on the standing charge will be people who are fully home electric but without a heat pump. Is there not an argument there just to expedite the heat pump roll-out to ensure that those people are better off anyway?

Amanda Solloway: Absolutely, and thinking about that heat pump roll-out is certainly one of our commitments. You will have seen that we have had a massive roll-out on the heat pumps and that certainly is a way forward, not only economically but for the environment as well. There are those balances to be had.

Q272 Chair: I am tempted to go down the heat pump line but I had better not. Energy constraint costs could reach about £5 billion in the next decade. What are the Government doing, or what do the Government feel they should do, to address the risk of unconstrained constraint payments?

Amanda Solloway: Jane and I were watching the earlier session. You will probably be aware that this comes under a different Minister's portfolio, so—I have to be honest—I do not really feel equipped to answer this question. I am really happy to write to you about it, but if I even attempted to answer now, I just do not feel I would give you a worthy answer. Jane, is there anything you would like to add?

Jane Walker: I have already mentioned the review of electricity market arrangements. That is one of the rationales for looking at things like locational marginal pricing, to try to reduce some of those constraint costs, because it would incentivise new build generation closer to centres of demand. That is one thing we can do, as well as looking at ways to accelerate new network build as well. There is a balance across building new network and looking at the right kind of market incentives.

Q273 Chair: Finally on that point, Ofgem indicated earlier that from Sussex to Shetland, and from Stonehaven to the great town of Stornoway, costs could be lowered for everybody, by different amounts. I take it that that is something the Department would welcome.

Jane Walker: In terms of locational marginal pricing?

Chair: Yes.

Jane Walker: Our initial analysis has suggested that it would bring down bills for consumers in the round, between around £25 billion and £60 billion. That is very initial analysis. It does not yet build in all of the costs. Through the next phase of the programme we are going to be building on that, producing much more detailed analysis and trying to capture all of



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the costs so we can get a better picture. The initial analysis does suggest that it is an option that we will continue to explore.

Chair: Thank you, and thanks for the straight bat, Minister. We will write to you on those other areas.

Amanda Solloway: Apologies about that.

Chair: I appreciate that. Thank you.

Q274 **Sir Mark Hendrick:** Minister, one in five consumers has turned to unlicensed money lending sources in the last 12 months. What is your response to these concerns? Do you think it is right that retailers too quickly refer customers to debt recovery?

Amanda Solloway: I think it is awful, actually. One of the problems you have if you go to a loan shark or payday loans or whatever—and bear in mind that you should only be going to legal ones; a lot of them are illegal—is that it compounds itself. What could potentially happen—I have seen this happen with constituents, and I am sure other MPs could comment on it—is that somebody goes and gets a loan, perhaps even for just £100, but before they know it, because the interest is exorbitant, it becomes £150 and then it compounds again. I have known people who just end up in massive debt and that is incredibly damaging to their mental health. When thinking from an affordability point of view, I always try to think about that person, so I definitely do not condone that.

The words that you used in your question were interesting. You talked about retailers referring people. I don't know if that is the case. Perhaps you could just say the line again.

Q275 **Sir Mark Hendrick:** The general point is that consumers are going to loan sharks, and some are going to supposedly reputable companies that are only too keen to pass on those debts to bailiffs as quickly as possible.

Amanda Solloway: I have been having conversations, as you would expect me to, with many different stakeholders. A good example is Citizens Advice; obviously, debt is a big concern of theirs. I had a meeting with all of the suppliers last week, and I have ongoing meetings with suppliers. We will talk about different topics. One of the topics I spoke about was standing charges, to see if they could unlock some solutions in that area. I have also been talking about debt and thinking about how the suppliers could be key to supporting customers.

One of the really important things that we should and could be doing is around customer service. I mentioned this at the beginning, but we have a responsibility to prevent people from getting into debt in the first place. That could be around people calling their suppliers, but we have also seen all the affordability schemes and other benefits. Once people are in debt, that is probably when it starts to become a problem where they might be getting a loan shark to pay that debt. Again, I would say that the supplier should be contactable and customer service should be spot on with how



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they are helping people. However, getting that message to people is difficult, because when you get into debt it is embarrassing. As a child, I was in that position myself when my parents were too embarrassed to get help, and that is why I always try to make sure that we are doing something to support people.

Q276 Sir Mark Hendrick: We have just been discussing the standing charge with Ofgem, but what about the Minister responsible for the customers themselves? You talked about speaking to different people, maybe suppliers or other people. Do you not think that there is an active role for Government in trying to prevent this, possibly through new legislation?

Amanda Solloway: Absolutely. That is one of the things we have been doing. If you think about the cost of living, we have the cost of living payments, you have seen that disability payments have been paid, and the warm home discount, which has been incredibly helpful. I would also be keen to think about a consumer protection package or something along those lines whereby we are looking at how else we can be helping people. It could even be something like a price comparison tool, so people know where to go.

On that, I always think of my dad as an example. He is 90 this year and one of the things that he does is he goes and he gets money out of the bank and he walks along the road—well, not walks; he goes very slowly along the road—to pay his bill to British Gas or whoever it is. That costs him more. It actually costs him more to do it.

Q277 Sir Mark Hendrick: With respect, Minister, you are describing the problem, but you are not telling me what you think the Government should do. You used two good words there, “consumer protection”. That implies legislation. The specific question I asked you was about retailers too quickly referring customers to debt recovery. As part of consumer protection, do you not think it might be a good idea to say that firms will not refer people to debt recovery agencies within a certain period to give people who are struggling a chance to find a debt recovery method through legitimate means, rather than going to loan sharks, for example? What about the Government being proactive rather than just talking to people and saying it is terrible?

Jane Walker: Ofgem has some very specific rules on suppliers. If someone is struggling, then the supplier has to work with that customer to create an able-to-pay repayment plan.

Q278 Sir Mark Hendrick: I am not talking about suppliers. I am talking about the businesses that are calling in the debt in that way.

Jane Walker: I am not sure we are understanding—the retailers?

Amanda Solloway: What businesses?

Sir Mark Hendrick: Well, companies generally that—



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Chair: Loan companies?

Sir Mark Hendrick: Loan companies that offer people money. Instead of getting threatening letters all the time and putting pressure on customers, actually, they are not going to go to the debt recovery agency too quickly, so that it gives people a chance to pay that money back.

Amanda Solloway: There should be measures in place from a financial point of view so that that is not allowed. If it is an illegal practice, it should not be allowed. We are taking action. First, we are preventing people from getting into a mess and ideally from getting into any kind of debt. That is the reason we did all of those schemes.

One of the reasons I talk to suppliers is that they hold the key to this. Certain suppliers say that they can use a smart meter, for example—this is one of the reasons why we want to have smart meters rolled out—to identify customers and then be supportive of them. I do not think it is fair to say we are not doing anything, because we are.

Q279 **Sir Mark Hendrick:** You have been in government for 14 years. You can see in the statistics that almost one in five—18%—has turned to illegal money lending sources. Among younger households in debt, the situation is even worse, with a quarter of under-35s and a third—32%—of customers aged between 35 and 45 turning to illegal money lending. Now, you are talking about your father walking down the road checking this and checking that. This is widespread. It is widespread.

Amanda Solloway: I am not disputing that at all, and it is one of my big concerns. The question, though, is what can be done to stop that happening? The point that I was trying to make with the example of my father is that sometimes it is a hard-to-reach group of people. In these instances, we need to stop people going to those loan sharks, especially if it is an illegal practice.

We are helping people with affordability. We are also working with Citizens Advice, who should be people's first port of call and should be really helpful, and the supplier. Loan sharks, if they are illegal, should not be allowed to operate. I totally agree with you: it is an unacceptable practice.

Chair: Thank you. I am going to have to move on, as interesting as this area is.

Q280 **Mark Pawsey:** Minister, may I stick with standing charges? When a consumer goes to fill up their car with petrol or charge it with electricity, they do not pay a rental cost for the pump or the charging infrastructure. Why should electricity consumers pay for their use of the system to get the power to their home?

Amanda Solloway: It is a really good question. It is a question we have thought about a lot. Ofgem has the power to do that. As you will know, how the standing charges are arrived at is complex.



Q281 **Chair:** Ofgem's powers are set by you, the Government, aren't they?

Amanda Solloway: Yes. Looking at the standing charges, obviously it is within the gift of Ofgem. They can, as we have seen just recently, add to the standing charge.

I will say a couple of other things. You are absolutely right that if you go to other places, such as the petrol station, you might not see that. The energy system has been set up—we know that businesses have gone out of business, for example. That debt is spread over the standing charge. We also know that bad debt—

Mark Pawsey: It is the contribution for the network that I—

Amanda Solloway: Yes, there is a contribution for the network in there, and there is also something for bad debt. All those things build up in there for the standing charge.

Q282 **Mark Pawsey:** Do you think there is a case for looking to exclude the network charges and putting the cost on to the bill for the usage of the product?

Amanda Solloway: This is where the complication is. I think you and I have had this conversation, because, going back a long time, I used to be on the BEIS Committee. It is complicated, isn't it? You do not want to have the consequences—

Mark Pawsey: So you are not saying one way or the other, Minister; it is just a consideration.

Amanda Solloway: I really cannot at the moment, because it would be unfair.

Q283 **Mark Pawsey:** Would you say that electricity consumers have contributed towards the cost of the infrastructure, and that they have a stake in it?

Amanda Solloway: Until we see what the findings are, and I am really pushing Ofgem to get the findings as soon as possible, it would be—

Q284 **Mark Pawsey:** If the consumers have paid for it, they part own it, in the same way as the consumers who have gas to their homes have contributed to the cost of the gas network, yes? You would agree with that as a matter of principle?

Amanda Solloway: It is the way the system is set up that it has costs within it.

Q285 **Mark Pawsey:** So if the consumers, through their bills, have paid for the gas network, does it make sense to make the most positive use of it?

Amanda Solloway: Remember that the supplier does not have to put those standing charges on. We have examples where they do not always



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do that. Certainly some suppliers—sorry, I am probably misunderstanding the question.

Q286 **Mark Pawsey:** I am looking at the future of the gas network. If we say that the consumers have contributed to the cost of the gas network, does it make sense to continue to use it, and so does it make sense to use hydrogen in the existing pipes that the consumer has paid for if at all possible?

Amanda Solloway: I don't know.

Mark Pawsey: As an alternative to methane.

Amanda Solloway: I don't know. I honestly don't have any views on that. I would have to have a think—

Q287 **Mark Pawsey:** You don't have a view about the role of hydrogen in the home heating network.

Amanda Solloway: There are lots of different things that we should be thinking about in terms of what we should use for heating in homes. As an example—

Q288 **Mark Pawsey:** But should hydrogen be part of the consideration?

Amanda Solloway: I'm not quite sure what your point is in terms of affordability.

Q289 **Mark Pawsey:** I am just wondering whether, if people have got gas to their home and it is an affordable way of heating their home, but we are not going to use methane because of the CO₂ emissions, and hydrogen does not produce those emissions, we should be considering the use of hydrogen.

Amanda Solloway: Under my innovation portfolio, I look at all different methods of energy, and there are different methods of energy—as you will know, there is nuclear, for example. I don't know. My initial thought is that I don't know whether it has been proven to be cost-effective, and therefore it might be more expensive.

Q290 **Mark Pawsey:** If we were to use hydrogen, that is great because the network would continue to be used. If we were not to take the decision to use hydrogen—the Government are going to take a decision in 2026—who should pay the cost of decommissioning, if it is an asset in which the consumer has invested?

Amanda Solloway: I would have to have a further think about that, because it is not quite my portfolio. I will have a think about that.

Q291 **Mark Pawsey:** May I turn to locational pricing, which we covered earlier? You would accept that house prices are different in different parts of the country.

Amanda Solloway: Yes.



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Mark Pawsey: And electricity costs more to generate in certain areas because there is less production. We have lots of production in the north and Scotland and much less production in the south, and we have to invest in infrastructure to bring energy to the south. If we accept that house prices can differ, why shouldn't the price of energy differ between the north, where it is produced, and the south, where we have to invest to get the electricity to them?

Amanda Solloway: As we said earlier in response to this question, there are two parts to it. The first part is the transmission part, which is—

Q292 **Mark Pawsey:** I am asking, as a matter of principle, if we accept that house prices can vary by location, why should electricity not vary by location?

Amanda Solloway: It depends on the factors that go to build your energy bill or go to build your house prices. I guess there are different—

Q293 **Mark Pawsey:** Would you agree that house prices in London and the south-east are too high?

Amanda Solloway: It depends on salaries. Why would I—

Q294 **Mark Pawsey:** So you don't think there is a problem with the differential in house prices.

Amanda Solloway: I don't know how much—I don't know what your point is. I am really sorry.

Q295 **Mark Pawsey:** My point is that if energy prices reflected the cost of getting the energy to housing in London and the south-east, they might have a dampening effect on the rate of increase in house prices or the level of house prices in London and the south.

Amanda Solloway: My understanding is it is cheaper in London, because—

Q296 **Mark Pawsey:** I am arguing it should not be, because of the cost of bringing it down from the areas where it is produced under our new environmental system.

Amanda Solloway: It is do with the mass, though. It is to do with the number of houses. It is to do with the density. It is far more dense in London, which makes—

Chair: That is the distribution cost, not the generation cost.

Q297 **Mark Pawsey:** Should London consumers pay a higher price for their energy because the production is not taking place in London and the south-east—there are not many wind turbines in London, whereas there are plenty in the north—and the cost of delivering energy to the north is lower? I am arguing the case for locational pricing, and I am asking you where you stand on that.



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Amanda Solloway: We are quite keen on zonal pricing. As we were saying earlier, it sounds like it is a good thing to do. We have just done a consultation and are looking at the findings.

Q298 **Mark Pawsey:** So you are supportive of the principle.

Amanda Solloway: It seems as though the principle is a good one, especially as it will have a positive effect throughout the whole of the country.

Q299 **Mark Pawsey:** The point I am making is that if energy costs are higher in London and the south-east, might it have a dampening effect on property prices because the energy cost is higher?

Amanda Solloway: I haven't thought about that. At the moment it is definitely cheaper in London. Would having higher prices make it more expensive? I think people would still live in London.

Jane Walker: I am not sure that we have factored house prices into our impact assessments, but we are looking in detail at—

Q300 **Mark Pawsey:** If the cost of running your home is higher, the amount you can afford to pay for your mortgage is less.

Jane Walker: Okay, but people would still choose to have a job in London, potentially, so there are a lot of factors that you would have to—

Q301 **Mark Pawsey:** But the broader principle that there should be a higher price for energy in London and the south-east, where energy is not created, compared with other areas where it is created, is one that you are comfortable with.

Jane Walker: We are looking at locational marginal pricing. We are looking in detail at what the distributional impacts of it would be and what options you might want to do for—

Q302 **Chair:** It is going to be cheaper in London with locational pricing.

Jane Walker: Our initial analysis suggests it would be cheaper across the whole country, yes.

Amanda Solloway: That is really important—cheaper across the whole country, yes.

Q303 **Mark Pawsey:** Why would it be cheaper across the whole country?

Amanda Solloway: Because of the way it would work. You would get exactly what you are talking about—

Chair: Because the constraint payments—

Amanda Solloway: Yes, which is why the findings have said yes.

Jane Walker: Yes, we covered the constraint payments question earlier. You would be reducing your constraint payments.



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Mark Pawsey: Because there would be fewer constraint payments. Okay, thank you.

Q304 **Vicky Ford:** Given that customers, through their bills, pay large amounts of money towards the energy infrastructure, who should own the energy infrastructure that they pay for?

Amanda Solloway: It is a combination, isn't it? We know how these things work. The Government have a responsibility, the suppliers have a responsibility and so does Ofgem. It is a combination, in terms of how we work.

Q305 **Vicky Ford:** You are not going to make any comment on some people who think it all should be nationalised and owned by consumers.

Amanda Solloway: Not really. What I would be really keen to get to is a buoyant market again. That is really important. We need competition in the market and I think there would be a danger in not having that competition. We are hoping to get to a point where we will be starting to switch quite soon. We are seeing it a little bit, but that would be our ambition.

Q306 **Vicky Ford:** Would you like to explain why you think there would be a danger from not having competition?

Amanda Solloway: Because it might stick prices at a certain level. As an example, one of the things I would be really keen to do is have a think about how we compare different suppliers with each other. There is a whole suite of things that we would be looking at. As an example, some suppliers have good customer service at the moment and some suppliers are not as good. They offer different things. It is important that we have a competitive network that will drive prices down.

Q307 **Vicky Ford:** Thank you. Who do you think should be responsible for the cost of decommissioning energy infrastructure?

Amanda Solloway: Again, I am not—

Jane Walker: I guess it depends which infrastructure you are talking about. There are decommissioning funds for different types of infrastructure already in place, for offshore wind and for—

Amanda Solloway: Nuclear and so on.

Jane Walker: Most new builds now are already including decommissioning costs as part of their build costs. They are factoring that in as part of their overall project.

Q308 **Vicky Ford:** There was a letter from the Secretary of State to Ofgem about the costs of energy bills. She asked Ofgem to tackle the issue of the high standing charges. Why did she write that letter? Why was that not dealt with at official level?



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Amanda Solloway: I believe I signed the letter as well, if I recall. Certainly, from my point of view and conversations I have had with the Secretary of State, one of the things that I am very conscious of is that we must make sure that we hit that affordability target, and standing charges could be part of that solution. I am not saying they will be, because I have not seen all the findings, but applying common sense, it would appear that standing charges—because we know that they contribute, I think, over £300 a year to everybody's bill—

Q309 **Vicky Ford:** How much of the standing charge is a green levy?

Jane Walker: There are very few levy costs—green levies, as you call them—on the standing charge. The standing charge is mostly made up of network costs—the cost of transporting and building new networks—and supplier operating costs, which includes billing, metering and so on. It also includes the warm home discount, which is obviously a very important policy, and a few other costs, but there are no other green levies on the—

Q310 **Vicky Ford:** Are there any levy costs?

Jane Walker: They are mostly on the unit rate, not on the standing charge.

Q311 **Vicky Ford:** If you have a levy that encourages people to switch to greener fuels—renewable energies, for example—and encourages that type of production, why should someone who has already decided to invest in their own solar panel, for example, continue to have to pay the cost of that levy?

Amanda Solloway: That is exactly the point that we are looking at.

Chair: Can you answer very briefly, please?

Amanda Solloway: Yes—that is exactly the point we are looking at. When we see those findings, we will have the answers on that.

Q312 **Vicky Ford:** So you are looking at how that can be fairer, to encourage—

Amanda Solloway: In answer to your question, the reason why the Secretary of State and I pushed on this is very simply because we want to make sure that we are being fair, and standing charges seem an obvious thing to look at.

Chair: I am sorry, but we have to move on.

Vicky Ford: Sorry, I am just asking the questions that have been agreed by the Committee.

Chair: Okay—on you go.

Q313 **Vicky Ford:** How are you going to action the recommendations from the Committee on Fuel Poverty given that 35% of fuel poor households are in the private rented sector? I know we have done a lot on the social sector.



Amanda Solloway: It is a complicated problem and we need to be making sure that we are looking at energy-efficiency as well as affordability. You will know as well as I do that there are loads of schemes in terms of insulation and making sure that we do hit energy-efficiency. It is not just about supporting people with the affordability; it is also around how we retrofit a lot of these houses.

Vicky Ford: Many of those schemes are for those on benefits or in social rented housing.

Amanda Solloway: They are targeted, and quite often it is around the fuel poverty issue as well, where we can really—we do a lot of it locally through local authorities as well.

Q314 **Dr Coffey:** The energy market is quite complicated in a broader sense, but it is quite straightforward for people whether they choose to switch their heating on or not and whether they think they can afford it or not. We have been through quite an extensive amount of support with the energy shock that happened, and it was right for the Government to step in then, but as we start to move forward, what are the Government doing to reconcile the shrinking number of support schemes available while we are still hearing that the squeezed middle are still feeling that they are struggling with their energy bills?

Amanda Solloway: Thank you for that really good question. We are taking lots of things into consideration. That is the challenge for us. When the schemes started, obviously, there was an absolute need to get the schemes under way. We knew we had a cost of living crisis. Had we not invested over £90 billion, we would be in a much worse situation now. There is talk about lower inflation today, and a lot of that is because of what we have managed to do from an energy price point of view. Thinking about the support that we gave, there were things such as the warm home discount, support for the cost of living and so on, but we also had all of the other schemes. We also saw, for example, over £60 for four months going into people's households.

We now need to examine that. One of the things I have asked of the Department is to look at how those schemes were done. All credit: we had to get them up really quickly, because people needed that support really quickly. Was there money that maybe could have been directed elsewhere? Probably, if we had had more time, the answer would be yes.

The first part of that is that we are looking at and thinking about what would we do if we got ourselves into this situation again, so lessons learned. We have not quite got that yet, I don't think.

Jane Walker: We have done a lot of internal lessons-learned exercises, but we are also formally evaluating all of the schemes and we will get those results in due course.



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Amanda Solloway: Absolutely. We know that the price cap is coming down, which is great news; hopefully there will good news again shortly. What we are doing in the Department—I certainly am—is thinking about consumer protection. We are thinking about what we can do to support vulnerable people, and we have a whole suite of things. Some of it will be through working with DWP because of things they are doing, but we are also thinking about whether it would be helpful to look at what the market is looking like with respect to competition. Would it be helpful to have more data? A really good example of what we are trying to think about is how we share data. I understand that for the warm home discount we were able to access DWP data. What we need to think about now is whether we should be looking at sharing more data and making it more readily available.

Q315 **Dr Coffey:** Let me share a little bugbear of mine. I deliberately got something into the Digital Economy Act 2015 to open up the data sharing powers, not just within Government but with suppliers. Of the amount in schemes that are being paid for by levies on other people's bills—it is not Government money—only about half, at most, is going to helping people reduce their energy bills through insulation or whatever. What is going on? What is your assessment of how we are using this? As far as I am aware you have access to pretty much all the data you need.

Amanda Solloway: There are a couple of ways of looking at the data. You know this well; I think we have had discussions about it. One thing I would be keen to do is think about where we are putting that support in. If we had another situation where we needed to act swiftly, if we had a situation where data were shared across Departments, that would enable us to get into those households that needed it more swiftly. That is a challenge. I have had meetings with lots of Departments to discuss how we do that.

It is not just a GDPR problem—we should probably think about how we get through that, because it makes sense to have a central record—but different systems are being used. But we are now starting to think about how go into the future.

An example of where we can do something is the priority list. That is something we are looking at. Thinking about all the people on the priority list, is there a way that we could share that data? You have got Ofgem looking at how they share with Ofwat, for example. Does that, in my view, really tick a box as to where we should be going? Priority service is important, but I am not sure it really hits those vulnerable people from an affordability point of view.

Q316 **Dr Coffey:** One of the things that people have done traditionally to try to reduce their bills, and have been encouraged to do, is switch. There is a variety of ways to do that. Is now, then, the right time to ban acquisition-only tariffs?



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Amanda Solloway: No decision has been made on that as yet. I have been speaking to different suppliers who have different views. Some will take the view that it should be done; others will have another view. We have not made a decision yet. I can see that Jane wants to come in.

Jane Walker: This one is an Ofgem decision.

Amanda Solloway: Yes, I shouldn't say "we". I meant Ofgem.

Jane Walker: They are obviously looking at that. They are consulting on it at the moment. They have also put out a paper on future price protection options for the market, alongside a paper that we put out on how the default arrangements need to evolve in future to enable customers to unlock really good deals. As part of that, a ban on acquisition tariffs is an option, but there is no decision as yet about the best options for the future.

Q317 **Dr Coffey:** You say it is an Ofgem decision. Why? Why should it be an Ofgem decision on something where consumers and Government Ministers obviously have a view?

Amanda Solloway: I suppose it is historic, isn't it? It is a good question. I will ask the question. I have been talking to different suppliers, some of whom—

Q318 **Dr Coffey:** Can I cover off something else, because I think you are going to think about that?

Amanda Solloway: Of course—please do.

Dr Coffey: On park homes, it was good that people got their £150, but it was a nightmare for a lot of them trying to get that money. We still have this problem that people on some of the lowest incomes around the country really struggle to get the protections and benefits. What are we going to do to change that?

Amanda Solloway: It is a really complex question, as you know, because you start by being on a non-domestic tariff at the point of service, and then it goes to become a domestic at the user. I guess you could look back historically and reflect, and on the whole it is of benefit, the way that it works, but before we had the cost of living crisis—

Q319 **Dr Coffey:** Using the energy to provide to domestic consumers?

Amanda Solloway: Yes.

Dr Coffey: Ms Walker, this must have gone around Ministers' desks many a time, and it is in the "too difficult" bin, probably, but come on.

Jane Walker: These consumers are served by a commercial contract, essentially, and historically they have had a lower price than domestic consumers who are protected by the price cap. Those prices did spike through the crisis, but now we are seeing those prices coming back.



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Before this session today, we did a search and found that you can get rates now that are comparable with the price cap level, and we would expect them to come down again.

Dr Coffey: You don't get the choice though, do you? I will leave it at that, Chair.

Chair: Thank you. Maybe given the emerging speculation it will become an election issue.

Q320 **Derek Thomas:** What have the Government learned from the winter of 2022-23?

Amanda Solloway: There are a few things. I probably answered that question slightly, thinking about the analysis that we have been doing. The first thing is around energy security. As you will know, we set up the Department just over a year ago. It is really important that we did that, because energy security is the most important thing. We must not be reliant from an overseas point of view; let's make sure that we are producing our own electricity. That is why we are investing so much in renewables. That is the first part of it. It was a lesson learned but obviously we have accelerated, and we are doing that in any case.

The second part is how we swiftly act to support people. It is really important that we do the analysis that we talked about in order to make sure that next time, not only are we able to support people, but we are able to target where that support goes rather than doing a blanket support, if that is possible. I don't know whether you have any other lessons, Jane, because you were there.

Jane Walker: We obviously had to act very swiftly, which we did, and it is very important that we make sure we do learn all the lessons, and we are capturing all that and doing formal evaluations, as I said.

Q321 **Derek Thomas:** Have there been any conversations about whether Ofgem is up to the job or whether it needs to be reformed in some way to better prepare us for energy shocks?

Amanda Solloway: I have constant meetings and conversations with Ofgem, as you would imagine, and I have many honest conversations, certainly with the panel who were in earlier. A good example would be prepayment meters and the installation. When they presented some ideas on that and said, "This is how we plan to get back to doing the installations," one of the things I felt that I should do was scrutinise that as much as possible. They made a suggestion, and we went through and scrutinised it. On the standing charges, we were able to say to them, "Look, really, standing charges unlock a lot of opportunity; you should be doing them." We have a good working relationship, but at the same time, it is a case of working together, but also putting in parameters in terms of expectation.

Q322 **Derek Thomas:** Finally, there is a lot of chat in the media about a



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general election being announced this afternoon. That is the Chair is so keen to get out the doors. Seriously, though, how prepared is the Department to manage any sort of shock, or anything in the energy industry, and support for individuals if we were in an election period and there was purdah going on?

Amanda Solloway: I have regular meetings not just with stakeholders but with Members of different parties. That is really important. I believe that we have taken a common-sense approach, setting the foundations for the future and making sure that we are really supporting vulnerable people. I take that incredibly seriously and I have spoken to my counterparts in all different parties.

Regarding the possibility of a general election, you will all know as well as I do that Ministers stay in place, and civil servants will still be in place too. We have taken a very common-sense approach, we have set some very good foundations, lots of lessons have been learned and I think we are in a good place to go forward should a general election be called any time soon.

Chair: That was probably the music that you wanted to hear. Lloyd Russell-Moyle, you have the last six minutes.

Q323 **Lloyd Russell-Moyle:** How do you aim to encourage innovation in our energy tariffs?

Amanda Solloway: Again, I am thinking about the suppliers that I have regular meetings with. They can be very innovative in their tariffs. One of the things that will help that is switching. Talking about having a competitive market, it is quite interesting when you start to look at the different kinds of suppliers. Some have been around for a very long time and are probably ingrained in a certain kind of customer, and then you have other suppliers coming on to the market that have very different ideas. Some of them are disruptors. Innovation in the tariff market is quite important and we are certainly encouraging it. Is there anything you want to add, Jane?

Jane Walker: We published a response to our call for evidence on innovation earlier this year. There was strong consensus that the primary drivers to unlock innovation were around cracking on with smart meters and delivering the market-wide half-hourly settlement programme, because that enables many more innovative tariffs to come forward. Those were the building blocks.

Q324 **Lloyd Russell-Moyle:** British Gas told us that they would like to move to a non-standing tariff, where that was got rid of, but that for some reason it is impossible. We have heard today from Ofgem that if they make an application, they will consider it favourably, maybe, but the chief exec of British Gas seemed to say it was not possible. EDF say that they have moved themselves to a social tariff but would like to have more freedom to be able to do that, but the way the market is regulated makes it



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difficult. The energy companies are telling us that they have these innovative plans but they cannot implement them. Is that them just passing the buck or is there a problem with the regulations?

Amanda Solloway: I don't necessarily know if it is passing the buck. I would not like to say that, because I think the suppliers have been incredibly innovative. I believe that they can be innovative. I do not think they are prohibited from having that innovation. But it might be something that we should take away for one of our meetings with them.

Jane Walker: As a follow-on to the call for evidence that I mentioned, we committed to have working groups, one on consumer protection and one on innovation. We have the first one on innovation coming up in the next couple of weeks. That is really about working with stakeholders across the piece, not just suppliers, to see what reforms might be needed to help unlock more innovation.

Q325 **Lloyd Russell-Moyle:** On the standing charge issue, the problem is that if you do not charge a standing charge, you cannot just add it on to the per-tariff rate because the cap does not increase unless you ask for a special waiver, and that special waiver process clearly is a bit difficult.

You talk about the need to move to smart meters. The problem with smart meters is that from a click of a button in an office, someone can be put on pay-as-you-go, but it is almost impossible for them ever to be taken off pay-as-you-go. There is almost no process with most of the energy companies to say, "I want to move to a monthly payment scheme like every other person." Is there not a problem that sometimes we are stigmatising these processes because you cannot have flexibility?

Amanda Solloway: We certainly would not want to be stigmatising. When people are changed to a prepayment meter, I understand that the same rules apply. You have to make sure that you are being mindful of the person who is there.

Q326 **Lloyd Russell-Moyle:** If you are on a prepayment meter, it is almost impossible to phone up and say, "Actually, I quite want to pay monthly now by direct debit." They say, "No, I'm terribly sorry, you can't do that." It is not a choice, is it?

Amanda Solloway: We were talking to a supplier the other day who still does weekly, so it is not impossible, but I would imagine it maybe isn't as convenient or as cost-effective. The danger with something like that is that you might end up making it more expensive if suppliers have more administration to do. I am not saying it is right; I am just saying that is possibly what might happen.

Q327 **Lloyd Russell-Moyle:** We know that most of the people who are the poorest are also time-poor and that they just don't switch. Going back to my colleague's earlier question, is it right that Ofgem have said they are minded to abolish the protections for people that stay with an energy supplier? It is not an open consultation they have put out there; they



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have said, "We are minded to abolish it; change our mind." What is your view on that? Do you wish to change their mind or not?

Amanda Solloway: We absolutely do need to think about those vulnerable people. We need to think about how we can support them. One of the things I would be keen to do is think about a consumer protection package—and I am not quite sure how this would work—where, for exactly those people that are really hard to reach, we would be able to look at what it is that they are getting.

Q328 **Lloyd Russell-Moyle:** Is it right, before we have developed that package, to be removing one of the protections that they have?

Amanda Solloway: It is a matter for Ofgem.

Jane Walker: Yes, I think Ofgem are going to have to factor in this.

Q329 **Lloyd Russell-Moyle:** Ofgem have said they are minded to get rid of it and they have put it out for wider consultation, for people to change their mind. It is a consultation. You can feed into that consultation, Minister, as much as anyone else. What would your input to that consultation be? Ofgem have already come out with what they are minded to do.

Amanda Solloway: We will certainly wait for the consultation. I have not seen the results.

Q330 **Lloyd Russell-Moyle:** Why don't you feed into the consultation?

Amanda Solloway: We will definitely be having conversations on that, but—

Jane Walker: As with everything in the market, we are talking about wanting to increase competition, aren't we, and increase innovative tariffs, so—

Q331 **Lloyd Russell-Moyle:** I am not necessarily talking about wanting to increase competition for some of the most vulnerable because we know they do not get any improvements from price competition. They tend not to take advantage of it.

Amanda Solloway: Which is why we want to make it more visible in terms of where those comparisons can be made.

Q332 **Lloyd Russell-Moyle:** Are we doing enough to incentivise lowering domestic energy bills compared with what our EU counterparts are doing, particularly thinking about ensuring that we have a domestic supply chain of energy that is not battered in the international market?

Amanda Solloway: I think it is really important. One of the things we were talking about was how it is really important that we do that from an energy security point of view. The way we have helped with other schemes as well, it is not just about the supplier; it is about Government's role within that and making sure that we are supporting



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vulnerable people with all the other things that we are doing, like the cost of living and national insurance cuts. There is a raft of things.

Q333 **Lloyd Russell-Moyle:** We cannot protect vulnerable people—we cannot protect the majority of people in Britain—if we are not insulating our market from international forces.

Amanda Solloway: That is exactly why we have a Department for Energy Security, to make sure that we are doing that.

Q334 **Lloyd Russell-Moyle:** What are we doing for the consumer to ensure that, if there is another price hike, we are not just going to have energy prices rise?

Amanda Solloway: That is exactly why we are aiming towards energy security—why we need to do that, why we need to become self-sufficient, why we are looking at all the renewables that we are looking at.

Q335 **Lloyd Russell-Moyle:** Is the aim that we become energy self-sufficient, and we have a system of British energy for British people first?

Amanda Solloway: We would like to have a system that makes sure that we are secure should a shock ever happen.

Q336 **Lloyd Russell-Moyle:** There is no point in being secure if your energy is still priced at the international market rate. France gets away with it because its main supplier is also its main producer. It is netted off within the same company. We have a different market. I am not saying we should go for the French market; we have a different market. How are you intervening in that market to ensure that if energy prices are high somewhere else in the world, they are not artificially inflated here?

Amanda Solloway: Well, that is exactly our aim: making sure that we are energy—

Q337 **Lloyd Russell-Moyle:** What are you doing to make it happen?

Amanda Solloway: Like I say, we are doing all the stuff around renewables—we are making sure that we are doing that. We are making sure that we are looking at the analysis. Is there anything else you want to add, Jane?

Jane Walker: As part of the review of electricity market arrangements, we did look at whether or not you would want to split the markets between—

Lloyd Russell-Moyle: And you decided not to do it.

Jane Walker: And we decided not to do it.

Q338 **Lloyd Russell-Moyle:** You have not done that, so what are you doing?

Jane Walker: We are accelerating the deployment of renewables, so that gas sets the marginal price much less frequently.



Q339 **Lloyd Russell-Moyle:** So it is the hope that contracts for difference will take over, replacing the old forms of contracts, and that will mean that the strike price is hit at one point and then does not affect the rest of the market. Is that kind of what you are saying?

Jane Walker: Essentially, renewables would set the price rather than gas.

Lloyd Russell-Moyle: Some renewables are fixed to gas, so it is only the new market renewables.

Chair: I think we have an answer, then—an interesting answer, in that renewables, rather than gas, will fix the price.

To finish off, I will let in the very patient Mr Pawsey.

Q340 **Mark Pawsey:** Minister, you have told us about the challenge of supporting vulnerable customers, and about one particular issue with the availability of data. Do you think there is some merit in taking the burden for supporting those vulnerable customers away from the energy companies, which have a lot on their plate as they decarbonise and so on, and passing it on to Government Departments—who have all the information about housing types and needs and can be rather more focused and accurate in their support—through a dedicated payment added to benefits, for example?

Amanda Solloway: I think it is important that the suppliers stay in charge of their supply. They need to be very much in control of their supply. But that is one of the reasons why we want to try to share data, so that can be helpful.

Q341 **Mark Pawsey:** You do not think it should go on to somebody's benefit payment, for example, with a dedicated element to support them with their energy bill, as an alternative.

Amanda Solloway: I guess that is where conversations with other Departments are, in terms of how that could happen.

Mark Pawsey: It is a broader, whole-of-Government concern, yes.

Amanda Solloway: That is why we are having those broader conversations with DWP, Health and other Departments.

Chair: Thank you all. The afternoon is wearing on, and as Westminster is agog with rumour and everything else—will the Prime Minister be going? Some people say that he is going to the palace and whatever. We have concerned ourselves very much with energy, and I am grateful to Jane Walker and Minister Amanda Solloway for being here this afternoon. I hope you have enjoyed it. We look forward to you reading our report and your response to that when we produce it in due course.