HOUSE OF COMMONS

Energy Security and Net Zero Committee

Oral evidence: The cost of energy, HC 736

Wednesday 4 June 2025

Ordered by the House of Commons to be published on 4 June 2025.

Watch the meeting

Members present: Bill Esterson (Chair); Ms Polly Billington; Sir Christopher Chope; Torcuil Crichton; Wera Hobhouse; Anneliese Midgley; Luke Murphy; Melanie Onn; Mike Reader; Bradley Thomas; Claire Young.

Questions 1 - 58

Witnesses

I: Caroline Abrahams, Charity Director, Age UK; Maria Booker, Head of Policy, Fair By Design; Matt Copeland, Head of Policy and Public Affairs, National Energy Action.

II: Merlin Hyman, Chief Executive, Regen; Angus McCarey, Chief Executive Officer, Uswitch; Dhara Vyas, Chief Executive Officer, Energy UK.

Written evidence from witnesses:

- Age UK
- Fair By Design
- National Energy Action
- Regen
- Uswitch
- Energy UK

Examination of witnesses

Witnesses: Caroline Abrahams, Maria Booker and Matt Copeland.

Chair: Welcome to this afternoon's session of the Energy Security and Net Zero Select Committee, in which we are starting our inquiry into the cost of energy. Our witnesses this afternoon will be helping us to look at ways to support financially vulnerable consumers this winter and beyond, as well as possible reforms to the retail market. I ask the first panel to introduce themselves briefly before we start the questions.

Caroline Abrahams: I am Caroline Abrahams. I am the charity director at Age UK, an organisation for older people. We have a national bit that I work for, and we have lots of local Age UKs, with which Members will hopefully be familiar in their own constituency.

Maria Booker: My name is Maria Booker. I am the head of policy at Fair By Design, a campaign that aims to get rid of the poverty premium. We are interested in the extra costs that people on low incomes pay for essentials such as energy.

Matt Copeland: I am Matt Copeland. I am the head of policy and public affairs at National Energy Action, the national fuel poverty charity. We help to support people out of fuel poverty, raise awareness about fuel poverty and campaign for change in policy and regulation.

Q1 **Chair:** You are all very welcome. I will start the questioning by asking you about the support for vulnerable consumers. What is your assessment of the challenge facing consumers with the cost of energy? Will additional support be needed in the winter to come to protect the most vulnerable?

Matt Copeland: I am happy to go first. There is a huge challenge coming this winter for financially vulnerable households. We know that the price cap will come down in July, but not to an affordable level for millions of people. It is still over £500 more than it was before the beginning of the energy crisis, and on top of that we have debt levels still increasing. That means that people are starting to have to pay back for previous winters when they could not afford their energy, as well as their ongoing usage. That will be very difficult for lots of households. It is very bad for those who prepay as well, who are paying on demand. While at the July level you are paying about £140 a month, if you are on direct debit in January, to meet your demand as a prepay customer, you face a £211 bill. If you are a typical demand customer and you live in a low-efficiency home, it is more like £300.

I am sure Caroline will talk about older people, but I think it is very important to consider the impact on younger people as well. Fuel poverty and living in cold homes impacts young people from birth up into adolescence, from the development of your body to your educational attainment and mental health. There are 13% of households with young children living in fuel poverty in England, living under the poverty line in an inefficient home, and they are paying £300 more than a typical household for their energy bills. One in six teenagers lives in fuel poverty, with a staggering £500 fuel poverty gap, paying £500 more than if they were living in an efficient home.

I do not doubt at all that support is needed this winter. The Government have said that they will extend the warm home discount, or consulted on doing that, so that an extra 3 million households on means-tested benefits would receive it. That is welcome, but it is insufficient. The warm home discount has been £150 for the past four years and prices have risen £500 during that period. On top of that, we know that fuel poverty extends way beyond the means-tested benefit system and we can only capture means-tested benefits households within the warm home discount. The breadth and depth of the support that will be available this winter is quite clearly insufficient.

Chair: We will come back to some of those points in more detail but, before we do that, Caroline Abrahams, you were named there by Matt Copeland, so I will ask you next.

Caroline Abrahams: We are conscious after the Chancellor's remarks this morning that the policy is likely to change on winter fuel payment over the next short-term period. If so, that is good, because from what we saw last winter, and as we look ahead to this winter, significant numbers of older people really struggled. As things stand, we do not see enough changing for the coming winter.

What we have heard a lot is that older people, who were too worried about the prospect of having a very high energy bill that they would struggle to pay, self-rationed their heating. Off their own bat, they decided not to try to keep their homes adequately warm and to put up with being cold for extended periods. We have heard about the impact on children and young people, which is absolutely right, and for older people cold is also a big risk, as I am sure you are aware. Certainly if you have underlying health conditions, cardiovascular problems and things like that, it is a really bad idea; it can make it more likely that you will have a stroke or something like that. We are looking ahead to this winter with a degree of trepidation. It will be very tough for, we reckon, at least 2.5 million older people and probably more.

Maria Booker: Both Matt and Caroline have set out that the challenge of the energy crisis has not gone away. Even though the worst may be over, prices are still around 40% to 50% higher than they were prior to the energy crisis and are not expected to come down significantly any time soon. We know that this is the new normal and people are struggling. The Government's own statistics show that 36.3% of households were spending more than 10% of their after-housing cost income on energy, which is a very significant proportion.

We have a lived experience advisory panel, and we asked them to share with us some of their experiences about what this means in practice. I will read a couple of those to you, just to ground it in real experience.

One of the members of the panel is a single mother. She remembered phoning her energy supplier in tears during the winter, asking them if there was any help that she could tap into because her energy prices were so high. Feeding her prepayment electricity meter alone was £10 a day. She had to pawn some of her jewellery to pay for it. Otherwise, it would have resulted in skipping meals to save money to pay for it, because it was so expensive.

Another gentleman explained that he was diabetic and suffering from poor circulation. His daughter had circulation problems in her hands. Being unable to afford the cost of heating his home, he spent the winter months in pain with black sores on his feet, while his daughter's fingers swelled in the cold. Last winter, they were unable to use any heating in the home. If the Committee would like to meet any of the members of our lived experience panel, we would be very happy to arrange that.

Q2 **Chair:** Thank you very much. The testimonies very much bring to life the reality of what people face, so we are very grateful to you for them.

Matt Copeland, you talked about consumers who are on meters, but it is also true that standard credit customers pay an average of about £100 a year more than a direct debit customer. Is there any justification for customers paying more because of their payment method?

Matt Copeland: There is limited justification for payment method differentials. What particularly irks us at National Energy Action is the differential for standard credit customers that is caused by the cost of debt. Ofgem places more of the cost of debt on to standard credit customers, on the basis that standard credit customers are more likely to be in debt or go into debt. I contend that if standard credit customers are more likely to go into debt or be in debt, they are the least likely to be able to pay and therefore more likely to be financially vulnerable. Adding those extra costs on to those customers is not the economically efficient thing to do, because they are not going to be able to meet those costs.

Q3 **Chair:** What change would you make?

Matt Copeland: What Ofgem previously did with prepay for similar reasons was to level those costs over payment types. Ofgem was previously looking into doing that for standard credit, but has stopped looking into that at the moment. We had hoped that Ofgem would be able to look into that, especially if debt levels do not come down significantly.

Chair: That is very helpful. Caroline Abrahams and Maria Booker, do you have any different recommendations?

Caroline Abrahams: I strongly agree with my colleague. I think it is about half a million older people who are on standard credit, a significant proportion of whom are in fuel stress. The rationale was very well put by my colleague.

Maria Booker: I will add that another way of tackling it is to have a social tariff that is designed to compensate for the standard credit premium, so you could have a warm home discount or a standard social tariff that gives that money back to people on low incomes who also pay by standard credit.

Q4 **Chair:** Thank you very much. We will have more questions about the social tariff a little bit later.

How important is Government support for energy efficiency for helping consumers to manage the cost of energy? What is your response to reports that the Government are considering cutting funding for the warm homes plan?

Matt Copeland: I think it is hugely important. Making homes more energy-efficient or decarbonising homes is the best, lasting route out of fuel poverty for millions of households. Our research showed that meeting the statutory fuel poverty target—the legal target that the Government have to get all low-income homes effectively up to EPC by the end of this decade—has massive benefits for those households, but also for the economy with tax receipts and growth, and things like the climate and clean air.

We found in our research that the Government will have to spend something like what they have committed in their manifesto to reach that fuel poverty target, to meet that statutory obligation. Missing that commitment and putting less money towards energy efficiency and decarbonising fuel-poor homes is pretty worrying and will put the delivery of that statutory target at risk. It is more important than just meeting targets; it means that more people will pay higher costs for their energy for longer.

The Energy and Climate Intelligence Unit put out a report saying that the delivery of that manifesto commitment would save £500 per year off the energy bills of hundreds of thousands of homes. That is £1.4 billion of energy costs avoided. If we do not save that money through decarbonising homes, we will be in the situation that we are in this winter, and have been in during previous winters, where we are providing financial support for households again and again. I think cutting that manifesto commitment would prove a false economy for the Government.

Q5 **Chair:** Yes, and £500 is significantly higher than the £300 in the manifesto that the Government have committed to cutting bills by. Maria Booker, anything to add?

Maria Booker: We strongly agree with that. Matt and NEA are the experts in energy efficiency, but it is an important pillar of making energy affordable.

Caroline Abrahams: I note that it would be of huge benefit to older people, who we know tend to be in older homes that are hard to heat and quite leaky. They have a lot to gain from such a policy.

Chair: Thanks very much. We will move on to Luke Murphy now, but we will come back to all these topics so colleagues will get a chance to ask follow-up questions.

Q6 **Luke Murphy:** Welcome to the panellists. The Prime Minister and the Chancellor have taken the welcome decision to raise the means test for the winter fuel payment, and it was confirmed this morning by the Chancellor that that will be in place by this winter. What would you do? Would you restore it to the status quo or would you use the money in a more targeted way? Is there a better way of using that money to support pensioners in need, but potentially others as well? I will come to any of you on that.

Caroline Abrahams: Do you want me to start? They are nodding hard.

Yes, we were very pleased to hear the Chancellor and the Prime Minister's words today. It follows on from what we were saying at the beginning of this discussion: that the problem we are worried about is what will happen this winter based on what happened last winter. At this stage, if you want to change the system in time to impact people this winter, you do not have many options. That is because all the clever things that you might want to do through the benefit system take longer.

Our systems are all quite clunky and old and they take time to change. You are back down to very few options and there has been a lot of media discussion about the fact that one of them, perhaps one of the only ones, is to essentially re-universalise winter fuel payments, which then leaves you the option as a Government, if you wish to, to do other things. As I think has been hinted at, for example you could make people who are on a higher rate of income tax pay back through the tax system. The tax system is easier to change quickly than the benefit system; that is the point.

Age UK's position is that we have not called for it to come off our higher rate taxpayers. That is because our number one concern has been the 2.5 million people we talk about a lot. They are the older people who are entitled to pension credit who do not claim it. There is another group who are just above the line, and then there is a third group, which is people who are chronically unwell or have extreme disabilities and are in very leaky houses, so inevitably their energy bills are a lot higher. We reckon that altogether that is about 2.5 million people. If the Government were to decide to re-universalise the benefit but to remove it from higher rate taxpayers, we would not complain, because our primary aim of ensuring we protect the really vulnerable pensioners would still be met.

At Age UK we have never sought to defend the winter fuel payment on the universalist principle. We accept that these are tough times for

Governments and it is important that we sort out the public finances as well, so we have some sympathy for the difficulties that Ministers have at present.

Maria Booker: We are pleased that the Government are looking at the eligibility thresholds for older people on lower incomes. As Matt Copeland said earlier, unfortunately it is not just older people who are struggling with their energy bills. That is why we are very keen to see a social tariff that would benefit all age groups and not to pit one group against another, but it is important that everybody is covered.

Matt Copeland: On who you might want to target additionally, our view is that in addition to looking at an income threshold, there are some other things that make people very vulnerable to the cold, such as whether they have a health condition or disability or are in the older bracket. I hope that the Government are looking at how to use all that data. If the Government do work out how to get income data at household level, that will be very useful for other things as well, targeting other types of support for working-age households.

I will also mention that one of the real benefits of the winter fuel payment is that it goes to households in Northern Ireland and is pretty much the only mechanism that we have to support households in Northern Ireland at the moment. The warm home discount is GB-only, as are many other mechanisms, so it does have that benefit.

One thing that we do not like about the winter fuel payment or that we think could be better is that generally support for households to make their homes warmer is more effective when it is a bill discount rather than an income supplement, because it is a more direct access to warmth. If we are looking at more wholesale reforms of the winter fuel payment, that element of it could be looked at.

Q7 **Luke Murphy:** I accept what Caroline and others have said about the speed with which the Government could reform, and there was a reality that you could restore it and go back through the tax system as you outlined. If that was a temporary measure for now—let us say that that budget is finite—would you recommend that the Government do something slightly different for future years, to better target it at those pensioners who are in fuel poverty, as well as others who are in fuel poverty?

Caroline Abrahams: Our position on that is remarkably similar to that of my colleagues here. In the longer term, we too are very keen on the idea of a social tariff. You could also use the warm home discount and reshape that in a way that would help more people. We completely accept that it is not only older people who are in fuel poverty and who are struggling and likely to struggle this winter.

We have had a bit of an experiment over the last 12 months since the Government announced their policy anyway last July. They experimented with the idea that if you linked it to a means-tested benefit, that would be okay and older people who are entitled to it would claim it. What has happened is what we knew would happen, which is that that has not worked, despite strong efforts from Ministers and officials, money behind television advertisements and things like that. There has been some success in helping people to claim pension credit; I think the latest figures came out yesterday, and I think it is about 60,000 extra people. That is great, but it still leaves something approaching 700,000 older people who are entitled to pension credit not getting it.

The point is that universalising the winter fuel payment, possibly with the exception of those right at the top of the income distribution, ensures that the money gets to the very vulnerable older people in a way that we do not think anything else does. That is the problem. If you are talking about the whole of the older population, you are talking about people who are deep in their 90s or their 100s—they are dying, they are very unwell, they have dementia. A lot of these people are not online, and there is no way now of targeting them effectively. If that were to change over the next few years as data gets better and we are better at sharing it across different Departments and with HMRC and things like that, that will be a different conversation. As things are today, the only way we know that we can guarantee that a very vulnerable older person who needs that extra money will get it is by making sure that it goes straight into their bank account.

Q8 **Luke Murphy:** I am interested in having that different conversation. I will not say who, but one energy company has said to me that it probably now has the data at household level that it could share with a third party supplier, for example the citizens advice bureaux. You could use the money from winter fuel—not necessarily this year, but in future—and better target it to vulnerable households, pensioners and others in fuel poverty. How does the panel feel about that? Then you might have fewer pensioners, even below the tax threshold, getting the benefit in whatever form that would take, but you would reach more vulnerable households in fuel poverty. On that different conversation, let us imagine the data is available. Is it your preference that the money should be used in that way, accepting that some others may lose winter fuel but that it is a better targeted benefit?

Maria Booker: Our preference is certainly for the money to be targeted at those who need it most. If that is a mechanism for doing so, that is something we would be keen to explore. We are doing some research with a group of charities and energy suppliers currently to look at the design of a long-term social tariff. It is showing that you need to focus on going beyond benefits and going to people who are on a low income. We know that from the warm home discount, even with the expanded scheme this winter, less than half of households in fuel poverty are eligible, so we do not have the tools at the moment to reach the people who need it. That is what we need to focus on.

Matt Copeland: If the aim is to reduce fuel poverty and make sure that homes are warmer, it is undoubtedly better to target available money at those who need it most.

Caroline Abrahams: I do not disagree. It is just not where we are now, but it would totally change the conversation. We are also part of the same research on what a good social tariff would look like in future. We think that has a big role to play as a longer-term reform.

Q9 **Luke Murphy:** I have two quick follow-ups, if I may. One is on the tax mechanism. Does the tax system allow us to withdraw the full amount from high rate taxpayers or is it a tax percentage, the tax rate that they would normally pay on that £300?

The other question is primarily to Matt, on the conversation you had with the Chair around ECO5 and insulation measures. Some have suggested that it could be just targeted at solar, heat pumps and batteries and not insulation measures. I want to unpick that a bit more: what impact do you think that would have on fuel-poor households?

Caroline Abrahams: I do not know the answer to how the tax mechanism would work. I am sure it is something that Government officials are looking at.

Matt Copeland: On ECO5 and insulation in general, we continue to believe that—on the basis that you are providing greater consumer protection for insulation, because we do not want to see the failures that we have seen in the past with installs that are not working for households, but on the basis that we can sort that out—we hope that insulation can form a part of the package going forward. It is very important that to address fuel poverty, you reduce demand more permanently.

Although solar, heat pumps and batteries can reduce costs for households, there must still be a place for insulation, because it does benefit the individual. It also benefits the system that you put in the house. If you are insulating a house, you need a smaller heat pump, a smaller solar array and a smaller battery, and that is lowering the cost overall. Also, it will help with the grid. If you have less heat demand in the house and we are moving people to electric heating, you need to build less grid to deal with that demand if the home is insulated compared to if it is not.

I think on the whole it would be better for the individual but also for the system if we continue to fund insulation. I am not saying that as a precursor you must have insulation in every situation, but we should continue to look case by case at where insulation works.

Q10 **Anneliese Midgley:** Thanks very much for coming in and sharing your expertise with us. I will ask a few questions about whether the Government energy bill support schemes remain effective and fair. The Government have committed to doing a consultation on the warm home discount. Do you support the continuation of the warm home discount? If not, what do you think it should be replaced with? Maria, Fair By Design told us that it is clear that the warm home discount is no longer adequate to support low-income and vulnerable households, so could we start with your thoughts on that?

Maria Booker: The reason that we believe that the warm home discount is no longer fit for purpose is that the amount is £150, whereas we know that the fuel poverty gap is calculated to be about £400. It is several orders of magnitude less than it should be to lift the average household out of fuel poverty. The second reason is, as I mentioned earlier, that it does not reach the number of fuel-poor households it needs to, because it is based on benefits only.

There are two ways you can go from here. You can either build out the warm home discount scheme itself, or you can start with something new. It does not matter too much what you call it. The research that Age UK and Fair By Design are involved in is saying that a lump sum discount with a formula or a tier attached to it would be a cost-effective way forward. If that is what the research comes out with when it is published in July, we would support that. We have traditionally looked at a unit rate discount because we know that there is not a strong link between what consumers consume in energy and their income. That means that if you are on a low income and you use a lot of energy because you have a disability or a long-term health condition, with a unit rate discount you automatically get a built-in increase in support and vice versa: if you do not use as much energy, you get less support.

There are practical considerations, and certainly the research we are involved in is pointing in the way of a tiered or formula-based lump sum discount, which is not too different from a warm home discount scheme, but it does need to go a lot wider than the benefit system. That is the key to making it more effective.

Caroline Abrahams: I agree. Sorry, short and sweet.

Matt Copeland: I agree with all of that. At the moment it is what we have that is critical; the rebate system is insufficient and it is critical. On sufficiency, if you had the money, it needs to be three times bigger than that to make energy more affordable for the millions of households, and it needs to go to even more households than it will go to this winter with its expansion.

Although we all know about the rebate scheme, another part of the warm home discount that is essential is the part of the scheme called industry initiatives. That is funding more than £50 million of things like energy advice, and it is critical funding for energy advice and income advice that you cannot get from other mechanisms. It is one of the only ways to fund that advice and is better value than the rebate. We are funded through that to provide some of our services, and we found through our measurement of outcomes that it is a significantly better spend of £150 in its return than a rebate because you get year-on-year benefit for the household. Whatever we move to in future, whether it is a warm home discount or not, we need to maintain that funding for advice going forward. If you lose that, you lose a significant portion of value.

Caroline Abrahams: We are similarly an organisation that receives money through the industry initiatives, and our findings are that over three years we have generated £21 of support for older people for every £1 spent. We think it is a jolly good thing. It helps us to reach out to people who would not otherwise be hit by other schemes. One of the benefits of it is that it can help to sweep up people who are otherwise missed.

Q11 **Anneliese Midgley:** You have led into my next question, which is about the Government reform of the warm home discount to make it responsive to changes in the wholesale prices. I believe that it has risen by £10 since 2011, and obviously energy prices have soared by hundreds or even thousands of pounds. You went into the point about adjusting support with the energy price cap in some of your answers to the first question, but is there anything you would like to add about wholesale prices and the energy price cap?

Maria Booker: I think it is important to maintain that link. Again, a unit cost discount would do that automatically, but if you have a lump sum, it must be both ways. If wholesale prices go up it must go up as well. Additionally, if the wholesale prices come down it can reduce cost for the Government too, so there must be a link to wholesale prices there.

Q12 **Anneliese Midgley:** How effective do you think the cold weather payment scheme is? This is in the context of the backdrop of milder winters and high energy prices and, again, that link to who is eligible for that and the costs.

Matt Copeland: I think it is relatively ineffective, for two reasons. First, it is paid after the fact, so I do not think people who are on very low incomes are thinking, "Oh, I might get a cold weather payment based on the weather in a few days' time, so I feel confident to put my heating on." That retrospective payment is a problem in giving people that confidence.

Secondly, seven days of cold weather is quite a long time. We had periods this winter, in November, where it was six days and people were struggling with very cold weather, and then the seventh day was a bit warmer and they missed out on the £25. I am not sure that £25 is enough any more. That has not changed in several years, so altogether it looks—I don't know. We can write to you with that information.

Altogether, it does not look to me as if it is providing a good level of support for households. It would be better if it were paid up front. That might be with forecasting, or it might just be that you choose some households and you give them that funding. You say, "We will make sure you have more support this winter." The Work and Pensions Committee was talking about that this morning, and said that that is just adding more money to other support. That money might well be better added to the warm home discount or to other income support to make sure that people know what they are getting and can plan accordingly and have the confidence to heat their homes.

Caroline Abrahams: I very much agree. From older people's point of view, as I have tried to explain, one of the big problems is with having the confidence to run your heating and not just self-ration. A retrospective payment does not do that, by definition. A big part of the policy for older people needs to be about giving them confidence that they can run their heating. I think a lot of people have genuinely been very spooked by the volatility in the energy market over the last few years. It is the biggest bill for lots of older people, so they worry about it a lot.

Q13 **Mike Reader:** Caroline, it is very positive to hear your views that it is more than just the winter fuel payment that will solve this and solve the underlying problems. Do you think particularly the actions of Age UK have misled the public when what you tell my constituents, who send me your template emails, is "Fix the winter fuel payment and everyone will be fine"? Do you think that has taken the political emphasis away from solving the root cause of poverty? Instead, we have PMQs and other questions all the time on the winter fuel payment, rather than dealing with warm homes and the underlying causes of the winter fuel payment. Should Age UK and other organisations not be focused on those, as well as just the political emphasis around the winter fuel allowance?

Caroline Abrahams: I think it has been apparent from my answers so far that we are working on both things. We are very much a partner of these other organisations and we are working together on what the best long-term solutions might be for fuel poverty, which would benefit older people and would benefit lots of other groups in society too. There is no dispute about that.

One of the problems with the winter fuel payment is that it is a victim of its own success. People know about it and put a lot of store by it. Older people put a lot of store by it. The problem with taking it away is that for some older people, you could look objectively at their income and their outgoings and say that they could have afforded to run their heating, but they were so worried about it and so spooked by the lack of notice with which the announcement was made. The lack of any opportunity to plan, along with high energy prices at the same time, frightened a lot of people and meant that they did not run their heating.

As I have said before, a lot of the challenge here is about giving older people confidence. I think if the Government do re-universalise the winter fuel payment, but remove it from one or more groups at the upper end of the income distribution, that would succeed in giving lots of people on ordinary incomes the confidence to run their heating again.

Q14 **Anneliese Midgley:** You have all mentioned the social tariff in your answers. Would you support the introduction of a mandatory social tariff ahead of this winter? How would you propose that it be targeted and funded?

Matt Copeland: We absolutely support the introduction of a social tariff. I am not sure if it is doable before this winter, given the legislative impact, but if it could be done, absolutely. We worked with Fair By Design several years ago to set out what we thought a social tariff should look like in principle. We said that it should be mandatory for all suppliers, automatic for those who are eligible, well targeted and additional to all the other support out there, and that it should significantly reduce costs to an affordable level for those who are receiving it.

There are a lot of different views out there on what that looks like. You have a view from Citizens Advice, and I am sure that Age UK has a view in the making. Maria has set out what she thinks. The thing we all agree with is that we need to provide more support to more people with a discount on their energy bills. The thing we are all waiting for is the Government to consult on it and to take action on it. We had a promise several autumn statements ago from the previous Government to consult on it, which was not followed through. We hope that this Government will pick up the mantle and move this forward. It needs Government and officials to take the next step so we can move towards something that provides much more support than we currently see.

Q15 **Anneliese Midgley:** Where does that fall? Where would you place that "more support for more people" level?

Matt Copeland: The number of people who will be supported this winter, which is 6 million households in receipt of means-tested benefits, is not enough. There are millions of other households who are not in the benefit system who need support. We know that one third of fuel-poor households do not receive benefits of any sort, so it must be more than that.

As I have said, £150 is not enough of a discount. It is more like three times that, if you had the money to do it, that would make energy more affordable for those who need that support. You might band it, so that some households get more support than that and some households might get less support than that based on their circumstances, but ultimately we are looking at something that is significantly greater than we currently have if you were going to design it with fewer constraints on the money side.

Caroline Abrahams: I absolutely agree. I suppose one of the groups that we have mentioned once or twice but is worth landing on just for a minute is people with disabilities of all ages. We know that typically people who are disabled have a lower income and are likely to find it harder to stay adequately warm. That is exactly the kind of group, if there were a broader-based Government support scheme, that you would want to target, along with people such as carers. There are several known groups who are more likely to be vulnerable for all kinds of reasons, including in respect of their ability to stay warm.

Maria Booker: I think we need to see going to a social tariff as a journey. There is quite a lot to do, and what we can put in place for this winter is not likely to be the end product. It may take several iterations to get to what we would all like to see, which is a much wider benefit going to more people and at a more generous rate. That does not mean that we should not do it now. We should absolutely press ahead with what we can do now even if that is going to people on means-tested benefits for the moment or extending it to people on disability benefits, but we must not lose sight of the fact that in the longer term we need to have something much more ambitious.

Q16 **Anneliese Midgley:** If we were starting again from scratch and there were no support systems or benefits or anything in place for energy, what would you do? Where would you start in addressing this if everything were new and you had to start again today?

Matt Copeland: If we had nothing, you would be looking at trying to do your best on day one to identify as many households as you could that require support through automatic means. At the moment, the best way we have is through the benefit system. There might be some other means as well that are in the works, for example looking at income, with the likes of what is happening with the winter fuel payment, but also leveraging health data. There is also a case for using supplier data to identify very vulnerable households, those with high debts and those who have very low weekly repayment of debt, which implies that they have a lower affordability to repay those debts. Identifying people is a big thing, and you would be identifying a relatively large cohort compared with what we are used to identifying for support.

Then you have the option of either a unit rate discount or a rebate. We have seen Ofgem consult on people effectively being offered the choice of zero standing charges with a high unit rate or a lower unit rate with standing charges. You could design a social tariff so that people are given the option of a fixed discount or a unit rate discount. That would mirror what Ofgem is doing for the rest of the market. There is a case for giving people the choice as to what works best for them.

The crux of it is more that you need to identify the people who need it and give them a significant amount of support. That is the real issue: the breadth and depth of the support rather than the technicalities of exactly how it is offered.

Caroline Abrahams: I am probably the least expert person on energy policy on this panel, but I think if you had a well-designed social tariff and an ambitious, ongoing energy efficiency programme, that would go a long way to providing the foundation. You probably would not have any prepay meters at all. We have already seen them ruled out for some older people, and we would like to see them go for all older people; I am not sure that there is a place for them anywhere. Or you would equalise it in a way that would mean you were not penalising people who are often the poorest and least able to pay. You would have to do some other things, as I understand it, to help people who do not have a direct relationship to their energy supplier or who are off grid. If you had those two foundations in place—wow. We would be in a different place, and it would be very exciting.

Maria Booker: I totally agree with what my colleagues have said. I add that the real blocker here is the political will around data sharing. We are not that far off—it does not require too much legislative change or too many changes to regulation—but it does require a culture change, particularly around income data, for Ministers to grab the bull by the horns and say, "We are going to fix this." Not only would it open up a social tariff, but it would help with the winter fuel payment. It would have helped with energy bill support during the pandemic. It will help across many other areas in Government. It is not the most glamorous subject, but it will open up so many options if that is grasped.

Q17 **Ms Billington:** I am delighted to hear your support for a mandatory social energy tariff, as that is something I have been campaigning for. I am particularly interested in the issue of data sharing, because that quite often ends up being the reason why people say to me, "Yes, we agree it is a good idea but, sorry, we can't do it." I do not have any truck with that. I have had the energy companies telling me that for years. Can you give me reasons to go back to them with and say, "Stop being a block to this"?

Maria Booker: As I say, it is really around the culture. It is easier to withhold the data than it is to share it, because you are much less likely to get into trouble. Policy in Practice has done some really good work in this area; it talks about the conflict with GDPR and sharing once rather than using the data for several purposes when it has been given permission to be shared. It requires a few tweaks to those regulations to enable the data to be used for a number of purposes. That would help to reduce the burden. Policy in Practice has said that many of these technical solutions are quite simple; they could be done in a few weeks. It is the bureaucracy around it and the willingness to share that is the problem.

Matt Copeland: From a legislative perspective, we already have the Digital Economy Act, which allows data sharing between HMRC explicitly within the guidance and DESNZ and energy suppliers for the purposes of alleviating fuel poverty. I think there is a good basis for being allowed to do it from a legal perspective.

Q18 **Claire Young:** Do you support Ofgem's proposals for an energy debt relief scheme? If so, is it feasible for it to be introduced before this winter?

Matt Copeland: We definitely support that relief scheme. Ofgem consulted in January on initial proposals for it, which would be £1 billion-worth of support for reducing debt for particularly financially vulnerable households. We think that reducing that debt is crucial. It helps the individual, quite clearly: we know that there is a link between being in debt and rationing energy. It helps the economy: people in debt are not spending as much money in the economy as they would. It reduces bills for all: there is a huge amount of debt-related cost in the price cap, and reducing that debt reduces everyone's energy bills. It is crucial that Ofgem do this.

It needs to be as automatic as possible. There is a temptation to give people hoops to jump through to make sure that the undeserving do not access that support, or that the won't-pays do not access that support when it is meant for the can't-pays. However, adding extra hoops to jump through means that people who deserve the support and need it will not engage with it and will miss out. Given that this is a one-off, we think that it just needs to be as automatic as possible to clear that debt, given the social benefit that is there already.

This should be one of the things that Ofgem is focusing on, because it would help to drive economic growth, which is something I know that the Treasury has been working on with the economic regulators. Reducing debt is one of the Treasury's overall aims for increasing growth; Ofgem should focus on it from that perspective as well.

The last thing is that there is a link between clearing that debt and decarbonising heat, which I know is another interest for you. That is twofold. First, if you are on an electricity credit meter and you are in debt, you cannot switch, which means that if you choose a heat pump you cannot access the best tariff for that heat pump—an innovative, agile tariff that you can respond to prices with and therefore access the cheapest heating. The second thing is if you have a debt on your gas meter and you move to an electrified home, you cannot get rid of that gas meter. You are stuck paying the standing charge until you clear that debt, which is a real blocker to decarbonisation for many homes. Clearing that debt is not just good for the market and for people; it is good for our efforts to decarbonise homes as well.

Q19 **Claire Young:** Can I pick up on your point about people not being able to switch? Do you think that consumers in energy debt should be given greater flexibility to switch, either to a fixed rate deal or a cheaper tariff?

Matt Copeland: Yes. Prepay customers already have a bit of that: I think they are allowed £500 per meter on their debt as part of the debt assignment protocol where they can switch. That could be put in place for credit meter customers as well to allow the customers who have been struggling with their bills to access cheaper prices.

Q20 **Claire Young:** Maria, do you have any thoughts on the energy debt relief scheme proposal?

Maria Booker: We would absolutely support it. Energy debt now stands at £3.8 billion, which is a rise of £2 billion in the last three years. We definitely think that something is needed. We agree that it should be as automatic as possible and as ambitious as possible. The impact assessment that was published with the consultation showed that the scheme would not get near the amount of debt and arrears that have built up in the energy crisis, which we think is a shame. It should be as ambitious as it can be.

Although we are really pleased that the scheme is being looked at, if it is not brought in at the same time as efforts to improve energy affordability, that debt will build up again. It is really important that the two things be looked at together.

Caroline Abrahams: We also like the idea. The only thing I will add, from everyone's point of view really, is that there will be a small group of people who will not be able to afford to repay anything. Having clear rules around when it is right to write off debt needs to be part of the introduction of the scheme.

Q21 **Claire Young:** Do you think suppliers are doing enough to support consumers who are in arrears to prevent disconnection and raise awareness of support available to them, or do you feel that that falls on organisations such as Age UK?

Caroline Abrahams: We probably hear less from older people about problems with debt because, as we know, lots of older people are averse to going into debt. That is why they self-ration in the first place. I suspect my colleagues will probably have more contact with that than we do. We do get some, of course, and it is variable. There is always the problem we hear about a lot, which is simply about whether they can get through on the phone and speak to customer services. There is a very simple issue, at one level, about just how accessible some providers are.

Maria Booker: I will pass over to Matt on this one, as we do not have any direct contact with customers.

Matt Copeland: Our view is informed by our clients, and our clients typically come to us when they have had a problem, either with debt or with their supplier. I cannot comment on the whole market and how suppliers are acting, but we know that there are instances where suppliers could do better with their treatment of their customers in debt, for example by organising repayment rates that are affordable and making sure that people are signposted to the right support. It is difficult to comment for the whole market, but there are still instances where they need to improve.

Q22 **Claire Young:** Do you think that it is possible to resolve the fuel poverty crisis without cutting the overall cost of electricity?

Matt Copeland: I think that you need a multi-pronged approach. We absolutely need to decarbonise homes at scale, but even if you do that, there will be people who struggle to heat their homes. We have clients with relatively good EPCs who are really struggling. Households on very low incomes, people with a disability or single parents, for example, will need additional support. That might need to come in the form of bill support.

Maria Booker: I agree with Matt. I think you need to look at this from lots of different angles. Certainly, reforms of the energy market more widely that will support more renewable generation should bring down the cost of wholesale electricity over time, which is helpful, but we also need to look at affordability measures and energy efficiency.

Caroline Abrahams: I think that that is one for my colleagues, not me.

Q23 **Torcuil Crichton:** Thank you all for coming in and for your strong evidence and your expertise. I will take us into the weeds, or into the wilds, and talk about people who are off the gas grid. Caroline mentioned that that is 15% of homes, or 4 million homes. In my Western Isles constituency, 89% of homes are off the gas grid. What can be done to get Government support to those 4 million homes?

Caroline Abrahams: We think that there is an important role for local authority-provided help, given that they are off grid, literally. That could also apply for other groups, such as people living in park homes and so forth. There is also a lot to do to help people in Northern Ireland, where as I understand it there is quite a prevalence of people being off grid, and where, as colleagues have said, the other existing schemes do not help. Maybe this is where local authorities could really play a part.

Matt Copeland: The warm home discount, the winter fuel payment and cold weather payments are available for those who are off grid. The problem is not that the support is not getting to them; it is that the support is not commensurate with the issues that they face. Our experiences with our clients, but also the data, show that the households that are living off grid on all-electric heating, where they do not have a heat pump, face huge costs. From our client data, we know that there are a lot of people living off grid who do not have central heating. They have a single heating source in their home that is electric. Not only are they paying through the nose to use that heating source, but they are not able to heat their whole house.

There is some very clear low-hanging fruit to help those households to move towards decarbonised heat that is very efficient through things like a heat pump, where they can have whole-house heating and have lower bills as a result. That would be a win-win, so there should be a focus from the Government on offering those households a whole-house solution including a heat pump.

We previously had the home upgrade grant scheme in England, which was very focused on off-gas-grid homes. We are uncertain as to whether we will have that off-gas-grid-focused support going forward. We eagerly await the spending review next week to see whether we will get the money for that. Also, it is not just about the home; it is about the price support as well. For those households, the energy bill support needs to be commensurate with the problems that they face.

Q24 **Torcuil Crichton:** Maria, do people who are off the gas grid come to you with particular problems?

Maria Booker: I defer to greater expertise on this, but I am a learning partner for a project called Taking Action on Rural Poverty, which is working with two groups in Argyll and Bute and Aberdeenshire to empower people who are affected by rural poverty to tackle it themselves and to look at what they would like to see as a proper solution. Certainly off-grid customers are a high priority in those groups.

Q25 **Torcuil Crichton:** Matt, you mentioned heat pumps, but something like a third of older homes will not be suitable for heat pumps. Where I am from, 46% of them are on oil. We have had evidence from Liquid Gas UK, the LPG suppliers, who seem to think renewable liquid heating is a way forward. Do you think it is?

Matt Copeland: I am not an expert on that, I am afraid, so I cannot comment.

Maria Booker: That is definitely not one for me, I am afraid—sorry.

Torcuil Crichton: Well, that was the last question of the last round.

Q26 **Anneliese Midgley:** You have given us so much food for thought and come up with a lot of solutions to the issues we face, but one thing that strikes me is that there has not been any discussion of how it should be paid for or who should pay for it. Matt, you are looking keen.

Matt Copeland: There are a lot of different ways you could raise money. Obviously finance is very tight at the moment and any fiscal ask from the Treasury will be tough to get. We might need to look at innovative ways of doing it. We currently have support through the energy company obligation and the warm home discount funded through bills. We would certainly support at least a hybrid approach to funding things through bills as well as Treasury funding to make sure we are getting as much funding as possible into the sorts of schemes we have been talking about.

In a recent speech, the chief executive of Ofgem, Jonathan Brearley, talked about making some elements of the energy bill more progressive. For example, he was talking about network costs and whether you could do network charging based on people's income levels, so that those on the highest incomes would pay more for the energy network than others. It is certainly worth looking into whether that could be done for policy costs on bills as well, to ensure that it is as progressive as possible when funding this sort of stuff.

Maria Booker: We would like to see funding that is not just on bill payers, because that is a more progressive way of paying for it. We did a report with the Fabians last year that I am very happy to share with the Committee: it looked at a funded way of having a 20% social tariff. There were several options for doing that in the report, including scrapping capital allowances for new oil and gas developments in the first year, maintaining customer contributions under the warm home discount, diverting the amount raised by the 2023 supplier profit margin increase, using the bad debt allowance to fund lower prices and reforming capital allowances for suppliers and distributors. That would ensure that you could get a 20% social tariff without any extra money going on bills. I am happy to send that to you. That is one idea. I think it is worth looking at a range of them.

Caroline Abrahams: It would be lovely to live in a world where we could say to people that the Government could afford to pay for a social tariff, but I am not sure that that is the world we are in right now. I think that probably it is not tenable for it all to be paid through redistributing costs among consumers through their bills. As one of my colleagues said, a more hybrid approach is probably more realistic and might get us to a really good place.

Q27 **Chair:** Nine million households in 2024 spent 10% or more of their income after housing costs on domestic energy. Maria Booker, I think this is an area that you have done a lot of work on. What do you think is a fair proportion of spending after housing costs for households to spend on energy?

Maria Booker: I would not like to put a percentage on it. We have not calculated that per se. I think that 10% has been a definition of fuel poverty for many years. It is a significant percentage of after-tax income and we think, as you say, that 9 million households spending that amount is too high. The main goal must be to tackle fuel poverty. That is the definition of fuel poverty we believe is the right one and we would like to see that come down as much as possible.

Q28 **Chair:** So something below 10%, as far as possible?

Maria Booker: Yes, with that number of 9 million coming down.

Chair: Chris Chope has a number of questions, I think.

Q29 **Sir Christopher Chope:** I think that this evidence has shown that this is a really important and very complicated subject, and we are in danger of making it even more complicated. My questions basically arise from something that Matt Copeland said: that for most people the best help is reducing the bills instead of other sorts of assistance. At the moment, what all fuel-poor households have in common is that they must pay value added tax on the energy bills and they must pay the Government levies on those energy bills. We have been told in a briefing that the total for the average payer is about £269 a year. That is not a dissimilar figure to the amounts that more than 20,000 of my constituents have lost in their winter fuel payment.

If it is open to the Government to remove VAT on energy bills and to remove the Government levies on energy bills, would that not be nice and simple and fair? Would you support me in my campaign to persuade the Government of the wisdom of such an approach?

Matt Copeland: We have certainly called for removing VAT in the past. Reducing bills is a key thing. I guess it is not targeted, which is a potential barrier to winning that campaign, but certainly something worth looking into. Levies pay for important things. In particular, the social obligations, the warm home discount and ECO are critical to our efforts to end fuel poverty.

Q30 **Sir Christopher Chope:** But should the fuel-poor be paying for those levies?

Matt Copeland: On the condition that there are commitments to continue those schemes over a long period, it is certainly worth looking at whether we can remove those levies at least for low-income homes.

Maria Booker: We have also called for getting rid of VAT in the past, so we agree with that one, but we would also support the point that it is about where that funding goes on Government levies. Some of the schemes that it supports are important, and we would like to keep those schemes. May I suggest some others to you?

Q31 **Sir Christopher Chope:** As long as they are simple. My concern is that this is getting more and more complicated. The Government have announced that they would reduce household fuel bills by £300 and they are well short of doing that. The suggestion I put forward would reduce the average bill by £269 and it could be done with a stroke of the pen by the Government. It would not add to the burden of bureaucracy associated with means testing and so on. Indeed, you could argue that the £269 reduction in all bills is an alternative way of dealing with the issue of the winter fuel payments. We in politics are always trying to make government more simple, but it always seems to be the Treasury that is pushing in the opposite direction. The discussions we have had today around having some social tariffs and all the rest of it—extra subsidies here and there—are further complicating what should be a simple issue.

Maria Booker: I take your point. The other one that might be worth looking at is standing charges. There are certainly elements of those that could be funded under general taxation, which would reduce bills for people, and they affect people on low incomes. They are the hardest hit.

Q32 **Chair:** Following up on Chris Chope's question, would you advocate using taxation to replace the levies? How would you fund the cutting of VAT?

Maria Booker: If you are looking at reducing energy bills, one way would be shifting some of those costs to general taxation. I know that

that is not an easy thing for the Government to contemplate at the moment, but that could be done in a number of ways. Some of the ones you suggest are worth looking at, particularly the VAT. Standing charges are another one to look at as well, but it is about how much should be borne by taxpayers and how much should be borne by bill payers, and perhaps the balance is not quite right at the moment.

Chair: To clarify, the evidence we have heard in the Committee is that the combined policy costs £187. I do not know whether you have a different figure, but that is the figure that we have been given.

Caroline Abrahams: I do not think we have a position on this, sorry.

Sir Christopher Chope: The 20,000 people in Christchurch who have lost their winter fuel payment do.

Caroline Abrahams: They do—that is true.

Q33 **Luke Murphy:** Does the panel have a view on the proposal that some have put forward of a rising block tariff, whereby there is a discount for energy usage up to a certain point per megawatt-hour, and then above that cap essentially it becomes more expensive. Higher energy users end up paying more, while lower energy users pay less. Obviously it would also discourage additional energy use, provided that it was combined with a social tariff to support those who have cold and draughty homes and are fuel poor. Have you looked at the idea of a rising block tariff?

Matt Copeland: Yes, absolutely. I put it in the bucket of "would be helpful, but not as optimal as some other options". The reason I say that is that there is a risk associated with such a tariff that some low-income, high-use households would lose out. If you cannot find them using the data matching to support, they are losers of that policy.

Luke Murphy: But if you could find them?

Matt Copeland: If you could find them, fantastic, but I think the status quo is that you cannot. That is a significant anxiety about doing things that way that you would not have with providing support in the ways that we have spoken about through a social tariff or enhanced warm home discount, and other such ways.

Maria Booker: The research that I mentioned earlier that has been done by a group of charities, including Age UK and Fair By Design, is modelling a number of options including a rising block tariff. The early indications suggest that it generates significant bill increases for people who are losing out on it. It does not look like the most optimal solution compared with others that they have modelled.

Chair: Thank you very much to all our panellists. That is the end of our first session.

Examination of witnesses

Witnesses: Merlin Hyman, Angus McCarey and Dhara Vyas.

Chair: Welcome back to this afternoon's Energy Security and Net Zero Committee hearing on the cost of energy. I ask our panellists to introduce themselves.

Merlin Hyman: Thank you for the invitation. My name is Merlin Hyman. I am the chief executive of Regen, an independent think-tank and advisory organisation focused on the clean energy transition.

Angus McCarey: Thank you for having me in the session this afternoon. My name is Angus McCarey. I am the chief executive of Uswitch. I hope you are in some way familiar with Uswitch; we represent about 33 million UK consumers who use our site each year. We are the most trusted brand in energy choices in the UK. If you think of us in terms of influence on energy consumption, our customers are about 25% of the UK domestic grid on any given day or month.

Dhara Vyas: Hi, I am Dhara Vyas. I am the chief executive of Energy UK. We represent companies operating right across the energy market from generation to supply, and lots of companies across the piece. We are involved in manufacturing, supply chain, data aggregation and flex.

Chair: You are all very welcome.

Q34 **Claire Young:** Welcome to the panel. I want to start by asking some questions about the stability and competitiveness of the retail market. Dhara, how effectively has Ofgem responded to the collapse of more than 30 suppliers during the recent price crisis? Does the collapse of Rebel Energy in April give you new concerns about the stability of the retail market?

Dhara Vyas: Thanks for the question. Price regulation and entry requirements were certainly not suitable, which is why we saw nearly 30 companies go out of business. Ofgem did act after that and introduced financial adequacy and more entry requirements that are tighter. I think that has gone some way towards reducing risk. There are now other risks that we are talking about in the sector, which are more around the pressing challenge of debt. Ofgem, again, is acting on debt relief support, but we are in a different phase now. That was certainly an issue; it is no longer the most pressing issue.

Energy UK is pro-competition. We want there to be a competitive supply market. There are lots of reasons right now why we think it is hard to be an energy supplier, and perhaps we will get into some of that with the Committee. It is a difficult bit of the market to operate in right now, and I think that the current rate of energy debt is a big part of that. If I were to focus on the sustainability of the retail market, I would probably look more at debt now than I would at entry requirements.

Angus McCarey: I agree with my colleague. I will add that I think Ofgem did act responsibly and appropriately in that extreme crisis period, but I will go a step further and say that I do not think it has moved quickly enough to a more competitive retail market since then. I understand the balance that they have needed to strike with that, but we have the stable base of energy providers that we need to operate in this next level of the market, and I do not think any recent events will change my view on that.

Q35 **Claire Young:** Not even Rebel Energy? You think that that is a sort of one-off; it does not change your view and make you think, "Actually, no, we still need the tightness of regulation"?

Angus McCarey: No, I think this post-crisis era of capital requirements and things is sufficient. To move to the discussion about bringing bills down, about the transition to net zero, we need a more competitive, more highly functioning retail energy market with more consumer engagement. I think we have sufficient controls, and we need to put the emphasis there.

Q36 **Claire Young:** Merlin, do you have anything to add?

Merlin Hyman: I bow to the expertise of my colleagues on this. I was for a while on the board of a small energy supplier that was local authority-owned: Bristol Energy. At the time, a huge number of suppliers were entering the market with trading strategies and so on that made them look cheap. They were undercutting more responsible suppliers, which a local authority-owned supplier had to be. Then, when they collapsed, they ended up putting a lot of cost and risk on the public, so I strongly support the fact that controls to stop that happening are required.

I also agree that we are in a fast-changing energy space with new ways of getting around, heating our homes and generating power, and that requires an innovative retail sector. We see some good innovation in the sector, but I also see some areas where perhaps there is a lack of supply. For example, there are a number of organisations around the country trying to set up local supply models between local generation and local use, and there are almost no suppliers offering services to that market at the moment. Those controls are needed, but we also need to try to encourage competition and innovation in this market now.

Q37 **Claire Young:** Angus, it sounds as if you are worried about the vitality of the retail market. Do you think that consumers have genuine choice between suppliers and tariffs, or do you think that more could be done to improve the offering? It sounds as if you are keen to deregulate a bit, because you do not think that it is necessary to still have these controls.

Angus McCarey: Since the height of the energy crisis, the market is moving back to a more competitive situation. If you take Uswitch today, there are deals from 10 different providers available. There are fixes significantly below either the current price cap or the price cap that is coming down on 1 July. That situation has developed over the last year and was not the case 12 months ago. Those are good signs about some of the things we might have previously considered normal in the energy market being re-established.

If the focus for this conversation is a structural drop in bills that we want to achieve—and Uswitch completely believes that the best route to that is electrification, decarbonisation and an overall clean power transition, and one can help us achieve the other—the signs are that the market is not currently competitive enough for consumers.

The most obvious sign is the price cap. Two thirds of households today are on the price cap. That price cap needs to be a backstop position. We have spent the last hour rightly talking about vulnerable households and there needs to be a solution, but if we take that as a given for a second, in the mass market of UK energy retail the price cap has to be a backstop position that a consumer can be on if they do not choose to engage in the market.

To achieve the transition around prices coming down, flexible tariffs, time-of-use tariffs and decarbonisation of home energy infrastructure, consumers have to engage in this market, not just at the level that they used to engage before the energy crisis, but at a level far greater. If we try to do it to people, it will not happen with anything like the same effectiveness as if consumers make those choices, and in the end it will be at a higher cost.

We advocate very strongly for a reform of the price cap that makes it genuinely a backstop position, not an opt-out. The precursor to that is an appropriate treatment for vulnerable customers and households. We also support a social tariff, which we have spent some time already talking about today. One is needed with the other, so that the price cap does not become a way for mass market households to opt out of the energy market.

Chair: We will come to the price cap shortly, but carry on.

Q38 **Claire Young:** I asked whether consumers have genuine choice. Do you think that consumers are adequately equipped or supported to make that choice? Obviously your model of your business is about trying to help people to switch to a cheaper tariff, but even if you go beyond the most vulnerable customers, do you think everyone can make that choice?

Angus McCarey: I think that the key constituents in the industry—Uswitch included but also energy providers—are making good efforts on this. For example, a great development in the retail energy market is the advent of peak and off-peak schemes whereby, for instance, you can reduce your peak consumption during the week and get free hours of electricity on a Sunday. A lot more innovation is needed, but that is a great example. Those schemes were not everyday normal before the energy crisis, but the average consumer does not understand that that is available from their current provider, let alone make a choice between other providers on the basis of those schemes.

I agree with you that more needs to be done. The direction of travel on those things is good. All of this is about how fast we can get there and how quickly we can do it. I think the general direction is good.

Claire Young: Dhara, do you have anything to add to that?

Dhara Vyas: Yes. I think it is a very good question. There is a moment of pausing and looking at the direction of travel when it comes to clean power. The Government have a commitment and an ambition to reach clean power by 2030. That mission aside, if you are moving towards clean power it is not just about power generation; it is about demand as well. We need to increase demand dramatically.

Angus mentioned electrification. We need to fundamentally shift the way that we heat homes and buildings and businesses across the country. We need to electrify transport. That is the direction we are going in. The reality is that it is hard. It is something we have not done before. The UK has led the way with decarbonisation because we have led via the power sector, and now we will do the difficult thing of engaging with people in their homes and businesses.

On the point about choice, we used to measure engagement in the energy sector by switching. The price cap was introduced as a "how do you tackle the loyalty?" penalty, because customers were penalised if they chose not to switch. During the crisis we saw a point at which, I think, 90% of homes were on the price cap. The price cap was doing a job it was never intended to do. We need to review it, because we need to shift the relationship that people have with energy in their homes and how they are using energy. That does not mean that you have to be on top of what you are spending every single minute of the day, but it means we need to shift to one where it is not all about switching every year and saving £20 or so. The biggest saving made is the first time you switch away from the one you have had forever.

It should be about having an interesting product service relationship built on trust and honesty and a good relationship with your supplier as a customer, where you might go for a bundled tariff, service and product offer. On your question whether we have enough of that, we have some good examples coming through, but there are lots of reasons why we do not have an abundance of them. One of those is that there is a volume of complexity. It is a complex market. As part of things like the review of the regulator, we should be thinking about how we simplify, consolidate and streamline regulation. That is one thing that we could be doing. We need to get smart meters in homes and get half-hourly settlement sorted.

There are a number of things that we need to do so that we can properly allow the market to flourish in the way it needs to if we are to meet our ambitions.

Q39 **Claire Young:** Do you believe that supplier-of-last-resort arrangements provide the best deal for consumers? If not, what reforms would you suggest? One thing that is interesting is that when Rebel Energy went bust, consumers were moved to British Gas, which was recently found to have the worst customer service record of any of the energy companies. Perhaps that is a factor that should be considered.

Dhara Vyas: I think the supplier-of-last-resort mechanism, as a mechanism, has proven its worth during the height of the crisis. The intention is to ensure that no customer is off supply or loses supply at any point during their supplier going under and being taken on by a new supplier. When you are taken on by a new supplier, they will bill you, but you do not have to stay with them. They will not put you on to a tariff that you have to stay on with them. As a mechanism, yes, I think it works. Rebel Energy was one of our members and I thought it was doing something interesting and in a novel way. It immediately did things that a lot of new entrants had never done before—join the vulnerability commitment, engage with market changes, thinking about flexibility—so I think it is a shame.

Claire Young: Angus or Merlin, do you have anything to add?

Angus McCarey: On supplier of last resort, I do not think that when the policies were created it was ever expected that they would go through the scale of what happened there. Overall, from a consumer point of view, it was understood to have worked. The situation was a very bad one, but people did not lose continuity of supply and were not penalised for having perhaps moved to a provider that was more innovative or a brand that you had not heard of before. Given the way it stood up to that stress, I do not think that it is the area in which there is most leverage in trying to do better now.

Chair: I will move on to Wera Hobhouse. Some of your questions may already have been asked, but see if you can ask follow-ups on the price cap.

Q40 **Wera Hobhouse:** Yes. What are other options? The price cap is basically what is being charged. Do you feel that price reductions are fairly moved on to consumers?

Angus McCarey: To explain the Uswitch position in slightly more detail, a precursor to any question on the price cap is the treatment of vulnerable customers in the retail energy market. To make the changes that we advocate on bringing bills down and driving decarbonisation, we need more active participation in the market from people who have the capability to do that.

I listened to the previous evidence around the case for a social tariff. I accept that it is hard to do that very quickly. It seemed to me that the discussions fell into "this winter" and "slightly longer term", and I think that that is appropriate, but a good enough solution for a social tariff that allows a higher level of open market competition in the mass market is what is needed for the solution to the mass market bill reduction.

We argue very strongly for moving forward on something in the social tariff space. Even if it is not perfect, even if it does not solve for all cases, it could be iterated so that the price cap, which is today the main market mechanism, protects the price from going beyond a certain point for all customers. It should not be trying to do the job of both vulnerable customer protection and mass market backstop. If we have got one piece solved, with the other after, we can have a price cap that increasingly will become a convenience charge.

A great example is electric vehicles, which we want to see more of for electrification, bringing down bills, transfer off gas and decarbonisation. If I own an electric vehicle and I drive it home after my work day, plug it in and start charging at 5.30 pm, I am now part of the grid problem of the future, rather than being part of the solution. Some 20% of electric vehicle owners who charge at home do not have smart meters, so they have absolutely no price signal that dissuades them from charging at that time. Many of them are still on a standard variable tariff price cap, but most of them are not on either a time-of-use or type-of-use tariff. Those products are available in the market today, but are not widely distributed yet.

The price cap needs to solve that kind of situation. A customer who has a choice and decides to plug in at 5.30 pm and charge at peak on a grid where they have no price disincentive—that is the sort of thing that the price cap should be there for, not the merge of vulnerable and mass market restriction.

Q41 **Wera Hobhouse:** Indeed, but the trouble is that not very many people are smart meter-literate, quite apart from the fact that smart meters are already a problem and run out of data, which is a completely different discussion.

How do you resolve the problem that some people are active in finding the best tariff and other people simply are not? How do you identify those who can do that and those who cannot? Is that not also one of the problems?

Angus McCarey: That is a problem, but I believe—even on the evidence that we heard in the previous session today—that some parts of that problem are easier to solve than others. Using the existence of the schemes we have—I am not expert on the logistics of the data share that we were talking about with HMRC and so on—I urge that, with urgency, Government, Ofgem, providers and suppliers try to solve 70% to 80% of those problems quickly and get something in place. If we spend the next three or four years trying to find a perfect solution to that problem, the clean power 2030 £300 bill reduction is off the table.

Q42 **Wera Hobhouse:** Going back to the suppliers, what is the advantage or disadvantage of having an energy price cap, or removing it?

Dhara Vyas: It sounds as if I am disagreeing with you, Angus, and I am not, but I do not think we should conflate—

Chair: We like disagreement and a healthy debate.

Dhara Vyas: Don't make it be me, please, Chair. I do not think that we should conflate the price cap with protection for customers in vulnerable circumstances. We are talking about different things here. We talked about how the price cap was brought in to tackle the loyalty penalty for people who are choosing not to engage. There is the question about how you support people to engage. We have talked about how it needs to be about something more, and there are lots of things happening in the market that should result in more and better offers coming through. Angus has talked about how there are some great offers out there right now.

We will still always need some sort of stable price regulation in the market. The regulator should be thinking about how we review the price cap, but it is based on how you recover efficient costs. That is how you arrive at where the price cap is. It does not support differentiation in the market, and that is where I think the issue is. It links to the first question around competition. That is not to say that we should scrap it; I think it is about recognising the role of the price cap. If we were to talk about protecting customers in vulnerable circumstances and how we target support, that would be a different question.

You are asking about how you get people to engage. We have been through a period in which bills skyrocketed: they were four times higher than they were, and right now they are still higher than they were in 2021. I think people are pretty engaged with how much they are paying for their energy, and yet as a nation we keep letting them down on things like energy efficiency schemes. We keep letting people down. How do you get help to reduce? How do you consistently put in place frameworks to support people to reduce the energy that they are using, use energy more efficiently and use it when it is cheapest and most plentiful?

Q43 **Wera Hobhouse:** But, again, that is a separate issue. We have been discussing that as well, but we are looking very tightly at how people are being charged for their energy and how energy suppliers themselves can survive and not go bust, while at the same time a fair price is being charged.

Dhara Vyas: Yes, of course.

Merlin Hyman: I will pick up on what Dhara was saying. The context of the price spike and the energy crisis is clearly important here. It was not very long ago that we saw prices skyrocket. That was due to our reliance on fossil fuel prices and the international fossil fuel market. Sticking to the clean power plan of becoming less reliant on gas through a high renewable system is very much the No. 1 point in customer interest, in terms of exercising downward pressure on bills for everybody, and also protecting us from what really damages. I think there is some Office for Budget Responsibility evidence on household finances, national finances, vulnerable customers, businesses and everybody. That is the No. 1 priority, but as you move to a very different system, to make it run efficiently it has to be as smart, flexible and digital as possible. That is critical to making a high-renewables system work effectively for everybody.

There are a whole bunch of enabling things that we need to do to run a very smart and flexible system. A lot of that is in the hands of people like the National Energy System Operator: having a big staff, allowing greater roles for storage and demand response, and balancing the system. But we need to enable people to participate in that smart system with innovation, with time-of-use tariffs and so on. For that, we need to make sure that the smart metering stuff is sorted, and we need to put half-hourly settlement into the system. Having those building blocks enables suppliers to come forward and innovate, provide people with more competitive tariffs, and overcome the situation Angus referred to, which is frankly nuts: that most people with electric cars are paying £50 or £100 more a month than they need to because they have switched to tariffs that are available, but their understanding is not high enough.

Chair: Hopefully it is 20% of EV drivers, not the majority. You have done a very good job on this panel of anticipating the next set of questions and starting to answer them, so I will move on to Torcuil Crichton before you answer all the questions he was going to ask.

Q44 **Torcuil Crichton:** Thank you all for coming in and for your evidence. We will move on a bit, but let's keep that electric car vibe of plugging in at 5.30 pm. That is probably the strongest bit of evidence: 1.3 million electric car owners will not be plugging in at 5.30 pm now, having heard that. But first they have to afford an electric car; secondly, they would have to have a smart meter installed, and there are problems with smart meters; and thirdly they would have to be digitally included and get online to get into Uswitch to get the best deal. Yet you say that one in five of them is not doing that.

Angus, what hope is there for digitally excluded people, older people and vulnerable people to get any kind of deal? If we cannot even get to the people who are switched on about their energy supply, how do we get to the people who are not?

Angus McCarey: I do not think we are saying that we cannot get those people with EVs to do those things, but we are being honest about where we are today. Basically, it is a reminder of the challenge. It is a question of how we make sure that the whole transition happens in an inclusive way that does not leave anybody behind. At the core of that is the discussion we were having earlier about customers who are less able to participate or people who are vulnerable.

We need to remember that the full spectrum can include customers who cannot move off gas, for a variety of reasons, including some of the ones you described, but equally it includes other people who are incredibly dependent on electricity, such as if you have dialysis equipment at home that needs to run at a certain time. It is a hugely complicated spectrum of different needs. I do not think I have any evidence to suggest, other than the things we talked about earlier about the different solutions.

Coming back more broadly to the challenge of the different stages of where the market is with consumers, we need to recognise that this is a transition on a huge scale in consumer behaviour, technology adoption, digitisation and changes in the supply mix. All those transitions in history have always happened with people who went earlier and people who went later. I do not advocate for anyone being left behind in that process, but the most important thing today is to take these technologies—time-of-use tariffs, electrified homes, EV technology and so on—into what we would call early majority mass market. Today, all those things sit in 3%, 5%, 7% adoption. We need to get into a world where a quarter of the houses on any street are considering solar or battery, for instance.

To achieve that, the biggest thing that has to change is that consumers need a cost motivation. They need the numbers for them in their home to add up to a cost benefit from making that change. I will buy a time-of-use tariff because it is cheaper for me to charge the EV that I have, or because I get a benefit in the evening. A lot of the early marketing consumer messaging from the Government and from other industry participants has been, in my opinion, too heavily skewed towards the pure green motivation. That is incredibly important and we should be able to achieve both together, but mass market consumers need an affordability message. We need to do that for everybody—for people who have, as well as those who have not. That is not me saying that I do not agree that we have to appropriately make sure that no one gets left behind. That is the challenge of this whole problem.

Merlin Hyman: I agree with a lot of that. In this early adopter phase, there are some categories of more vulnerable customers who can participate if we give the right support. I was with Motability the other day, which has 800,000 cars for disabled people. Currently, there are 80,000 electric cars that it is trying to enable to be on flexible tariffs, because that could save them all a great deal of money. There are people who live in social housing where social housing providers can roll out en masse PV, battery, heat pump and EV charger-type combinations and then maximise their value to their tenants' benefit.

As this transition moves on, we can see that EVs are coming down in price points in capital as well as whole-life cost, and we are seeing the second-hand market starting to evolve, so I think that you will quite quickly start to see a greater variety of customers who are able to participate. Making sure that it is possible, making it as easy as possible for them and working with key people like social housing providers or someone like Motability, to make sure that the benefits are available to them, is critical.

I have one final thought. You are right that the majority of people who will benefit are probably more well-off in the early stages, despite what I have said. I think an important principle is that there needs to be a price signal to the mass market, but there also needs to be a share in the proceeds of the savings with everybody. In other words, it should be reducing the balance in cost for the system as a whole, and that should feed through to everyone's bill. The saving that somebody provides to the system by charging at night or at a low-cost period should accrue to them, but some of it should accrue to everybody through the whole system cost.

Q45 **Torcuil Crichton:** Dhara, you encapsulated the challenge very well in the statement you made earlier. You might also have some of the answers as to how consumers can benefit and get into this deal.

Dhara Vyas: I do not disagree with maximising the power of flexibility. A typical household using energy flexibly could save at least £115 a year, if not more, with the right products, services, meter and so on, and it is likely to be more than that. There is a saving to be made, and we should absolutely be encouraging that because it is about using the system more efficiently, but everything we are talking about with electrification will only succeed if we are able to bring the price of electricity down. The fairest way to do that is to rebalance policy costs from electricity. The first starting point, which you heard from your earlier panel but which bears repeating, is that it is fairest and less regressive to move them from bills to taxation, while understanding that that is a huge challenge given the pressure on the public purse.

We have put out some research, which I will make sure is circulated to the Committee, on what we call full rebalancing, where you move policy costs on to gas and introduce targeted support for people. I will not use the language of social tariffs, because I think it is quite confusing. I think that mostly when we are talking about a social tariff, it is about targeted support to people who need it most: those who cannot afford to heat their homes, keep warm and keep their lights on. I would talk more about targeted support, because I think it is a clearer way of talking about it. Moving policy costs on to gas, plus introducing targeted support, will transform homes and bring down bills.

The analysis that we have published shows that over a 15-year timescale, a typical household with an air source heat pump could save up to £7,000 versus a gas boiler. It would also mean that the Government could reduce the boiler upgrade scheme from £7,500, as it is now, to £3,000 by 2030. It would mean that you would be offering targeted energy bill support, which would cost the Treasury between £650 million and £750 million a year, to ensure that no low to middle income household is left worse off. That is the main thing: that you hit as many households as possible and ensure that they are not left worse off. Even including those extra costs, full rebalancing would enable the Treasury to spend £40 billion less on the transition to clean heat by 2040.

It is quite a powerful argument, because you would be spending far less than your scheduled spend right now. I cannot stress enough that policy cost rebalancing is the most important thing to make the price of electricity attractive and cheaper.

Q46 **Chair:** Are you advocating rebalancing from electricity to gas, or are you advocating putting it on to taxation? I cited that figure of £187 as an average of policy costs combined between electricity and gas, assuming—

Dhara Vyas: I think it is around £180 on a typical bill, and around 80% of that is on the electricity bill, not the gas bill. That is what I think.

Chair: Are you advocating moving it from electricity to gas or to general taxation, or a bit of both?

Dhara Vyas: My first point will always be taxation. It is fairer and less regressive. Failing that, you could consider moving it to gas, but it is important to say that it is not possible or fair to do that without also introducing targeted support. That targeted support is what I mean. I think that when you were all talking about social tariff, we were talking about the same thing.

Angus McCarey: In particular, that is to protect people who are heavy gas users.

Chair: On policy costs, we are doing a very good job between us of anticipating future questions.

Dhara Vyas: I am sorry.

Chair: That's all right. I encouraged you to do it.

Q47 **Torcuil Crichton:** I was going to ask about standing charges, which people think are unfair, and whether the increasing proportion of standing charges can be justified.

Dhara Vyas: The standing charge is the amount that we all pay for the costs of delivering the energy, so the costs that are accrued right across the system, and the supplier collects the money via the bill. In the past, research has always shown that people in more vulnerable circumstances stand to be, I guess—what is the right frame here? I think it is that people will suffer the most if we did it in a different way. The fairest way was to have it as a set charge. It has increased quite a lot, and the regulator consulted on introducing a price cap without a standing charge. I am concerned about that, because it is important to ensure that anybody who took that price cap without a standing charge understood that their unit rate would be higher, because those costs would still need to be collected. You might end up paying even more if you do not manage your usage. There is a complexity in how we do it differently, but I completely understand that it is a challenge and these are costs that occur right through the system.

Q48 **Torcuil Crichton:** Angus, what do you think of that zero standing charge, the higher unit cost, and where that balance is, particularly with the lower income groups?

Angus McCarey: Our Uswitch view of that research is very similar to what Dhara described from Energy UK. The possibility with tariffs with lower standing charges and therefore, almost by definition, higher unit rates is that some people will win and some people will lose. It is a great example of what a more competitive retail energy market would deliver naturally. I do not think that it is a priority to be created as, for instance, an equivalent price cap that runs in two different ways, but that might be a way to get there. These are the sorts of variables that should go into whether the diversity of prices, tariffs and options available in the market allows a single consumer to get the best for them.

I welcome the innovation around standing charges, but not purely as a top-down policy measure in the price cap. Suppliers differentiate those things already on tariffs between themselves, but we advocate for more variety on those things.

Q49 **Torcuil Crichton:** Is there a case for getting rid of the standing charges for people on prepayment meters, for example, or social groups?

Merlin Hyman: On the standing charge, I bow to Dhara and Angus's opinion, rather than adding anything.

Q50 **Luke Murphy:** We have already had some of this discussion. You may have seen from media reports that the Government are considering exempting heat pump owners from paying policy costs on their electricity bills. Do you think that there are any drawbacks to this approach? How do you think that it would compare with a more wholesale switch? Are there any perverse incentives that would arise or concerns that you have about such an approach?

Dhara Vyas: My initial concern is about other forms of electrified heating, because it is about electrification as opposed to the technology that you have in your home. I would be concerned if that were not also extended to customers with other forms of electric heating. That is one thing that we should be thinking about. A fuller approach to rebalancing is optimal. I can understand why it is seen as a sort of incremental step towards encouraging heat pump take-up, but ultimately being bolder here will deliver greater dividends in the long run.

Merlin Hyman: I completely agree with Dhara. In the end, putting those levy costs on the bill as opposed to taxation—we are all paying one way or the other, but one is a more progressive and one is a more regressive way of recovering those costs. It plays to so much of the agenda we are talking about today of reducing the overall bill, tackling fuel poverty, encouraging low-carbon transition. A holistic solution is clearly preferable, and we will take the fiscal challenge.

If that is not possible and this is a step towards it, okay, that is useful, but the slight concern is that at the moment heat pump adoption probably skews towards the wealthier, so you are reducing costs for the wealthier. If that is encouraging them to do the right thing for the system as a whole that is great, but it would definitely need to be part of a package that provided similar benefits to those who cannot access those technologies at the moment.

Q51 **Luke Murphy:** Thank you, that is helpful. I hear what the panel says about how switching it to general taxation is a fairer way and how there are various issues with switching it on to gas. I think Octopus has a proposal whereby you might turn it into a kind of fuel duty-esque measure, where as gas prices might fall you would charge by the megawatt-hour on gas and electricity, and you would switch from electricity to gas and do it moderately over time as circumstances allow. What do you think about that kind of proposal, which would not be a wholesale switch in quite the same way?

Dhara Vyas: I looked at the details of it. It sounds interesting. I will reiterate some of the things you heard from your panel earlier about clarity for customers and understanding and fairness, because you would not want people to be unfairly penalised because there was any complexity in it.

Angus McCarey: With any of these specific ways of doing the rebalancing, the most important thing is that people who cannot realistically be expected to reduce their gas consumption on a short-to-medium time horizon and more vulnerable customers, for whom heating can only be gas and for whom targeted support is required, are probably less likely to understand some of the complexities of these different pieces. That needs to happen. Subject to that, rebalancing between electricity and gas within the bill is, from a usage point of view, a fairly fair way of achieving it. It is not the only option, but it would probably be good enough.

Dhara Vyas: But I don’t think that targeted support is just for gas or for heating. It is for all sorts of energy use in the house.

Angus McCarey: I agree, but on this particular question—

Q52 **Luke Murphy:** What about a rising block tariff?

Dhara Vyas: I think that the points Maria made in the first panel were pertinent. I remember we looked at a rising block tariff when I worked at Citizens Advice. That was at least a decade ago, and we were concerned about how people might be unfairly penalised. I do not know enough about whether that has changed in society or whether we have better systems now that could catch people. My instinct is to tread carefully on that. An abundance of new, innovative tariffs should go hand in hand with products and services, as opposed to the bluntness of a rising block.

Angus McCarey: I hold a very similar position. It is a great example of a type of tariff that should exist, because for a certain type of household it is exactly the sort of product that would work well and incentivise exactly the right behaviours, but it is not a top-down silver bullet solution to a question like the price cap or the other pieces. It is the sort of differentiation and competition that you would hope to see in the retail energy market of the future.

Merlin Hyman: I do not have a great deal to add. The only thing that I would focus on in designing these schemes—this comes back to the point that the system is changing—is that with innovation and a high-renewables system, the costs are very different. What generates the costs and the way they play out is very different, so we want to make sure that as wide a range of people as possible can engage. As we design things like social tariffs, rising block tariffs and so on, we need to ensure that we are not excluding a group of people from the benefits of that more flexible way of using power and engaging in the energy system. It is about making sure we integrate it, in a way that it is not integrated into the current price cap, for example.

Q53 **Luke Murphy:** Are policy costs in other European countries significantly lower than in the UK? Are they charged in a different way?

Dhara Vyas: They vary. A lot of them are on taxation, but they vary greatly across different countries. It is something that we are planning to look at. When we do, we will make sure we circulate anything we find.

Merlin Hyman: There are as many different approaches as there are countries. Spain has a system in which the standard tariff has an element of time of use within it. That is the default in Spain, and then there is a 25% discount and less of the policy costs. Of course, the policy costs are also different. The schemes that supported renewables or warm home discounts are all different so, yes, there is a very broad mix.

Q54 **Chair:** I will put you on the spot, then. Is there a scheme in another country that you would advocate that we adopt here?

Merlin Hyman: I think the Spanish one is an interesting case study. As I say, it has built time of use into its standard model. It has a 25% discount social tariff within it. That is an interesting scheme, yes.

Chair: Spain for Merlin. Angus?

Angus McCarey: I do not have anything else to add.

Chair: Dhara?

Dhara Vyas: No, I think we have to look at it in the context of the British energy transition. We have often led the way, and this is a space where we could lead the way again.

Q55 **Mike Reader:** A quick yes-or-no question for you, Merlin: do you think that the Government will reduce household energy bills by £300 by 2030?

Merlin Hyman: I am struggling with a yes-or-no answer, because the premise of the question—

Chair: You must be in politics.

Merlin Hyman: It is not a very specific commitment. Against what? What is the counterfactual: £300 from what?

Mike Reader: Let's say from the point of the election, when that was on the leaflets that we all delivered.

Merlin Hyman: Yes, possibly, but a lot in that timescale will still depend on the international price of gas. I am totally failing at your yes-or-no answer now.

If we think of three main buckets of cost coming here, there is the wholesale price of power, which the Government can influence by pushing towards a high-renewables system, making us less reliant on gas, but gas will still play a role in setting the price in the longer term. What plays out in the international market, which we have very little control over, will have a significant impact. There are the system costs—the wires, operating the system and so on. We are investing in the system at the moment. The Government can have a big impact on keeping those system costs down, through making it smart and flexible and making sure that we are not firing up gas-fired power stations when we could target much more effectively with storage or time-of-use or demand-side response. Then there are the policy costs, which we have been talking about today, where there is £150 on an electricity bill and it is the Government's choice as to where it goes. To your question, Mike, that is the easiest way of implementing that.

Mike Reader: We will go for quick answers from Angus and Dhara.

Angus McCarey: I think it is achievable, but I do not think that the pace of change today is fast enough to have the level of certainty that I would want if I were the Government. Is that a yes and no? Maybe I should be a politician. I cannot say confidently yes, but I do think that we can get there. Five years is a long time if we go fast now.

Dhara Vyas: If the question is "Can they?", the answer is yes, because there are lots of things you could do. If the question is "Will they?", that is in your hands.

Q56 **Mike Reader:** Very good. How will the composition of consumer energy bills change by 2030? What do you think are the distributional consequences that might result? I will start with Merlin again.

Merlin Hyman: We are moving to a system with more up-front capital cost in our generation and lower marginal costs. That changes the way the structure of the bill works and where the costs fall.

The most important thing is that we keep encouraging and developing the switch to renewables, but that we do so in the most efficient way to minimise the capital costs of producing the new fleet of generation, and that that flows through to customer bills.

Q57 **Mike Reader:** Dhara, I am conscious of the clock ticking, so I will ask you a different question. Could the broader energy system bear more of the cost of decarbonisation, or does it have to all be covered by consumers and bill payers?

Dhara Vyas: The energy retail sector had over a four-year period where across the industry there was a sustained loss of around £4 billion. In the energy generation sector, there is a generator levy that was introduced at the height of the energy crisis. That is a levy on extraordinary profits. I am not sure where the wiggle room is to do that, but there will be changes to bills. The conversation is very much around where it sits on the bill, how it is paid and how long it is on the bill. We have got the auction round 7 coming up. We have been talking quite a lot about how you could make it easier on the bill if you have a longer period for the CfD. There are things that we can do—policy changes that can reduce the impact on the bill.

Very quickly, on your first question, I have a very nice picture here of what the bill will be like in 2030. We will see a reduction in wholesale cost, because gas will set the price less often. We will see a falling away of legacy renewable costs, renewable obligation costs and things like that, but we will have an increase in distribution costs and transmission costs. We are investing an awful lot. Your two questions go hand in hand, and they are asked well, so I will send this to you, because I think it is useful for your Committee.

Mike Reader: Angus, do you want to add anything to that?

Angus McCarey: From a consumer point of view, consumers should expect to use more electricity at a lower unit rate and to use less gas at probably a higher unit rate, given the things that we have been describing here. The net of those things will be a lower overall bill. That is how I hope a household would think about it when they are not thinking about the detail of all the composition.

Q58 **Melanie Onn:** On the cost of decarbonisation and who bears it, I was quite surprised that in the evidence we received, Fair By Design said, "At present, the lowest domestic unit rates and standing charges are only available to owners of electric vehicles—not those on the lowest incomes." There seems to be some perversity in the retail market in the outcomes of the current system, where if there needs to be more responsibility on the bill payer, the system in the retail market does not facilitate that at the moment at all. Is that an accurate reflection? Is the wiggle room on the consumer side, or does the retail market need to do more?

Dhara Vyas: There will not be a tariff that is restricted such that somebody cannot access it. It is about whether and how you would access it, so I—

Melanie Onn: No, but if you are not in a position to have an electric vehicle and you are not in a position to have the smart meter, you are not going to access those tariffs for charging facilities, are you?

Dhara Vyas: No, and that is part of the bigger conversation about electrification. I will take this specific example away and look at it, because I think the price regulation that we have here sets a precedent for what is the fairest price cap. Within that, there will be differentiation: for example, is it because it is fixed for two or three years? There are other factors in there that will feed into the hedge, and that is why they are able to offer it at such a cheaper price. There will be other factors. I am very happy to take it away and come back to you.

Merlin Hyman: What should be happening as we use electricity more flexibly is that we are able to use power at times of day when we have surplus renewables, for example, and power is very cheap to produce. We saw at the weekend that we had a surplus of renewables, and we were turning off renewables. If we can incentivise people to shift their behaviour around so that they charge their car or whatever at an off-peak time—storage heaters are used by quite a lot of vulnerable customers, for example—that should be saving the whole system money. That value should come back to everyone through lower system costs and so on. That is the important principle. We do not want to disincentivise people who have an EV or a heat pump from doing the best possible thing for the system. They should share in the value created by that, but that value needs to go to everyone, not just to them.

Chair: That concludes our second panel of the afternoon. Thank you all for your excellent evidence.