

Energy Security and Net Zero Committee

Oral evidence: [The cost of energy](#), HC 736

Wednesday 15 October 2025

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[Watch the meeting](#)

Members present: Bill Esterson (Chair); Ms Polly Billington; Torcuil Crichton; Luke Murphy; Melanie Onn; Mike Reader; Bradley Thomas; Claire Young.

Questions 272 - 355

Witnesses

I: David Buttress, CEO, OVO Energy; Rachel Fletcher, Director of Regulation and Economics, Octopus Energy; Chris Norbury, CEO, E.ON; Chris O'Shea, CEO, Centrica; Simone Rossi, CEO, EDF UK; Andrew Ward, CEO, ScottishPower Customer Business.

Written evidence from witnesses:

- [OVO Energy](#)
- [Octopus Energy](#)
- [E.ON](#)
- [Centrica](#)
- [EDF UK](#)

Examination of witnesses

Witnesses: David Buttress, Rachel Fletcher, Chris Norbury, Chris O'Shea, Simone Rossi and Andrew Ward.

Q272 Chair: Welcome to this afternoon's sitting of the Energy Security and Net Zero Select Committee, where, as part of our cost of energy inquiry, and also with reference to our inquiry on building the case for the energy transition, we are delighted to welcome the big six energy retailers in the UK by volume of customer. We want to hear from them what they think the issues are surrounding the cost of energy to consumers and the way in which the current arrangement of the market influences the wholesale cost of energy that retailers pass on to consumers.

This afternoon we have David Buttress, the CEO of OVO; Rachel Fletcher, the director of regulation and economics at Octopus; Chris Norbury, the CEO of E.ON; Chris O'Shea, the CEO of Centrica; Simone Rossi, the CEO of EDF; and Andrew Ward, the CEO of ScottishPower's customer business. You are all very welcome. I will start the questioning before moving on to my colleagues.

The latest climate science—we have seen announcements from the UN and the Climate Change Committee today—underlines the seriousness of the situation and the immediacy of the climate threat. What are you and your businesses doing to communicate the seriousness, the nature of the climate threat and the implications for energy? How well do you think you are doing in making it possible for people to make the significant changes in their lives that are necessary for that transition to take place?

Andrew Ward: Good afternoon. It is a difficult challenge to communicate this to customers in terms of the significant spend that is about to occur in the UK. From a ScottishPower point of view, the challenge that we are trying to help our customers with is how they can actually manage the significant costs they face on their bills today. One of the biggest challenges we face today is debt and people being unable to pay for their energy bills. That is a significant concern that I have right now for the UK. There is a need to face into this and try to help customers to pay for their energy bills.

We are trying to educate the customer and help them understand how they are using their energy today. Smart meters are a great support in being able to do that. We provide our customers with options as well of how to reduce their energy bills. That is through dynamic tariffs and dynamic load controls, so we can help the customer reduce their energy bills today.

We help the customers when they are struggling to pay their energy bills by providing them with extended payment arrangements and a variety of measures that we will do to try and help the customer. As an energy company, we also help customers if they want to install solar panels or heat pumps across the UK from John O'Groats to Land's End, which, again, will help customers reduce their ongoing energy charges.



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Simone Rossi: On the consumer side, we are focusing our efforts on promoting electrification, as electricity can be produced in the UK, is low carbon, can be renewable, can be nuclear and can be distributed to the customers. Today in the UK, the electricity demand has fallen compared to the past. It has not increased, and this creates a problem insofar as we have an infrastructure that is spread over a reducing demand, so we have invested into promoting the adoption of electric vehicles. We have a company that does charging infrastructure. We have a company specialising in the installation of heat pumps, solar panels and batteries, but today it is fair to say that it is a bit difficult.

The UK has a price of electricity that is very high compared to the price of gas. The price of the two commodities is quite high, but there is a strong imbalance compared to other countries in Europe, for example. We would advocate that this strong imbalance is readjusted to facilitate those who choose to go electric in going electric.

Chris O'Shea: Thank you very much for having us. We take a multifaceted approach. We have recently become the largest strategic investor in the Sizewell C nuclear power station. We are promoting that to our customers as being a way to deliver zero-carbon electricity. We are intending to develop more nuclear power at Hartlepool, and we invest in solar in the UK.

We also own the Hive thermostat business. On average, our customers who have Hive thermostats save £170 a year compared to those who do not, because they control their electricity and gas consumption more closely than customers who do not have smart thermostats. We have saved about half a billion pounds over the last 10 years for our customers.

We promote smart meters. We are the largest installer of heat pumps in the UK, albeit the number of heat pumps we install is about 4,000 or 5,000 a year. We install about 90,000 boilers, so, by and large, we are a large boiler installer. We try to promote this to our customers, but we take the approach that we want to educate our customers as to what is possible and give our customers the choice. We want to do it with our customers, rather than do it to the customers.

Chris Norbury: Thank you for the opportunity to be here this afternoon. Our customers are very clear on this: 67% of our customers tell us that they believe that climate change is an emergency and needs addressing urgently. The way I would characterise it is that our customers tell us that they want their energy to be sustainable, but they need it to be affordable.

In terms of what we are doing, in no particular order, we are the largest installer of solar on new build housing in the UK through our Eco2Solar business. Our focus, in terms of the propositions that we are bringing to market at the moment, is on enabling those customers who have affordability challenges to benefit from the electrification of the home and



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from low-carbon technologies. For example, we are doing work with Coventry city council, installing batteries and insulation in the homes of low-income families. That is saving customers, on average, around £255 per year, which is higher than the level of the warm home discount.

If I look at the Allume SolShare product, which is a business that we have invested in, that product can be installed behind the meter. It enables equitable sharing of solar for mid-size apartment blocks and social housing. It allows the social housing provider to retain the export tariff. Previously, those types of customers in those types of properties have been very hard to reach in terms of the benefit of generating their own renewable energy. That product changes that.

Rachel Fletcher: Electrification of demand is absolutely key. That is the energy we use in our house and as transport. Like others, we are very focused on making it affordable and easy for our customers to electrify what previously would have been powered through fossil fuels. We do that in a number of ways. We install heat pumps, solar panels, batteries, and EV chargers. We have invested our own money in heat pump manufacture and R&D so that we can reduce the cost of heat pumps, improve their efficiency and make them easier to install and to repair, and train thousands of people in a new industry, effectively, in the installation of this new technology.

We are also offering tariffs to our customers with this technology, so that they can properly benefit from those assets being controlled to help them avoid high electricity prices and allow them to sell their power and flexibility back to the grid. For example, a household with a heat pump and a flexible tariff with Octopus Energy will probably save £240 a year compared to having a gas boiler. Somebody with solar panels and a battery could save 90% of their electricity bills if ordered flexibly. Equally, our EV tariffs are allowing customers to save £700 or £800 a year in running costs compared to running a combustion engine.

There are some really powerful customer propositions here. We are working with home builders, building homes that can guarantee the customer a zero electricity bill for 10 years, with remote-controlled heat pump, solar and batteries. I would like to echo the point about the need to keep electricity costs down.

David Buttress: Good afternoon. The key thing for customers around this—and at OVO we believe that it is the journey that is going to happen in the next five to 10 years—will be electrification. My colleagues have talked about heat pumps. The reality is that only 2% of homes in the UK that could have a heat pump have one. The reason for that, which is useful to understand, is the prohibitive cost, as we all know as consumers ourselves. To install a heat pump is probably £7,500 to £12,000. If you think about that from the context of a consumer and the cost of energy already, that is prohibitive.



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A great challenge that we have to face into, not just as energy companies but as a country, is how we therefore remove those barriers. Eight out of 10 consumers tell us that they want to go on a journey of electrification. How do we do that? We are going to have to find ways to make that attractive. How are those sorts of programmes, such as heat pump or solar, financed? That is the real barrier. People understand, they want to do this and they want to go on that journey, but that is the barrier that is in the way.

Q273 **Chair:** Thank you all very much for your opening comments. A number of you have made this point about affordability and the up-front cost there. David, you were speaking to that. The Government are introducing the warm home plan. We already have the warm home discount. Chris Norbury, you mentioned that you are doing rather better than the warm home discount with one of the schemes you are involved in. Those with money can afford the up-front costs. Those in fuel poverty, to a greater or lesser degree, will have help. There is a very great number of people in the middle. What is the answer for that group of people?

Simone Rossi: There is an opportunity probably with the ECO programme, of which there has been various versions over the years, to better target this programme of measures to support electrification. In the past there has been a lot of emphasis on insulation of different kinds. It is a difficult sector, so it is probably an area where it is possible to invest the considerable amount of money spent on this programme in a different manner.

We are supportive of the extension of the warm home discount that you mentioned. It is now being extended to a wider range of beneficiaries. Although the amount of the warm home discount is not sufficient per se to make a difference for people who really struggle, clearly it can help. In some cases we can see, maybe echoing what Chris was alluding to, that there are people in situations of great vulnerability, and poverty even, where they can benefit, through the ECO programme mostly, from homes that become warmer and very cheap to run. I visited myself some of the homes that benefited from this in Clacton-on-Sea, and so maybe there is an opportunity to do more of that.

Q274 **Chair:** I will come to some of the others for this, but my question goes back to what I first said as well. How do we take people with us? How do we get people to engage if they cannot afford the up-front costs to take advantage of the technology? I will go to Chris Norbury next, because you touched on this a bit.

Chris Norbury: To check my understanding, the question is not on the funded market, but on those customers who are not affluent but not eligible for funding, is it?

Chair: Yes.

Chris Norbury: There are three things. First, I think Rachel touched earlier on the benefit of consumer flexibility in reducing the overall



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system cost but also enabling customers to save money. At its most basic, this is just shifting the time at which you use energy into cheaper periods. It is wrong to think about that as something that is only available to customers who have energy assets in the home. Earlier this year we launched a proposition, which is a “time of use for all” proposition. There are three price periods during the day, every day. Your Amazon Alexa will nudge you to shift consumption in the home to a cheaper price period if you are on our tariff. It gives customers who cannot afford energy assets the opportunity to benefit from offering their flexibility back to the system. That is one thing.

Secondly, a scheme that we are testing in the market at the moment is an energy subscription. This is removing the up-front capital cost for energy assets such as solar and battery. For those customers who cannot afford the up-front capital cost, you pay a fixed monthly subscription for the assets and for your energy. We are testing that at the moment. We believe that that is another opportunity to grow the addressable market for those assets and help those customers in that middle section.

You come back to the fact that, ultimately, we need to address some of the fundamental drivers of the price of electricity in the UK to make those assets more attractive and bring bills down. We still have a wholesale market where the price is set by the marginal price of gas. We have non-commodity costs rising. We need to address some of the legacy policy costs on the bill to help customers in that bracket. There are things that we can do in that space to help everybody and to make the electrification of the home more attractive.

Q275 Luke Murphy: Chris and Simone, you both alluded to it—you talked about the marginal price of gas setting the electricity price. What should we do about it? The written evidence that the Committee received highlights that there is a huge consensus that one reason our electricity prices are so uncompetitive internationally is that they are set in that way. What are your suggestions for tackling it? What should Government be doing and how can you help them?

Rachel Fletcher: There are proposals on the table we think Government should be looking at to take gas out of the wholesale market and put it into a strategic reserve. That needs very serious and urgent consideration in the context that Chris has already set out, which is that, if we continue on the path that we are on right now, in all likelihood electricity prices for a typical customer are going to be 20% higher in four or five years’ time than they are now. That is even if wholesale prices halve.

We completely support the decarbonisation of electricity. That will begin to bring wholesale prices down, but the non-commodity costs are adding about £300 of pressure on to a typical bill. We have to do something radical to address that. Part of the solution could be taking gas out of the market. I do not think that it is a silver bullet. We need a Government who are looking at a range of radical options and looking to move, along



with the regulator and other parts of the system, much more quickly to address the path that we are on before it is too late.

- Q276 **Luke Murphy:** Chris and Simone, it would be good to hear from you because you both alluded to it. You have been really clear that that is the driver. Do you agree with Rachel about the solution?

Simone Rossi: I agree and I would like to add other things, because the point here is that the bills are very high. How can we reduce them? Maybe there is activity on the wholesale market, but there are other points. We have a business in France, in EDF, of course. We serve customers. We can compare the cost to serve in France and the cost to serve in the UK. Per point of delivery, the cost to serve in the UK is about £100 per annum. In France, it is €45, which is half, more or less. It is actually less than half. This is not to do with the wholesale price or the gas marginal cost et cetera. It is driven by the fact that we have very complex regulation that has become stratified over the years.

- Q277 **Luke Murphy:** If I can interrupt, I accept that and I am sure that that is true, but the overwhelming evidence we have received says that it is to do with the marginal price. What would you do about that? Do you agree that it is a problem?

Simone Rossi: I do not agree with the evidence, to be honest with you. As Rachel alluded to, we have in front of us a system where, even if the wholesale price were to halve, as she indicated, the bills will rise. There are two main drivers that we have in front of us in the growth of the bills. One is the demand reduction. We are building infrastructure as if there was more demand, but, in reality, there is less and less demand, so you have a bigger burden on smaller shoulders. That is problem No. 1.

- Q278 **Chair:** Hang on a minute. The predictions are for demand to go up significantly in the next 25 years.

Simone Rossi: I do not contest the predictions. I just want to say that 20 years ago electricity demand was 25% higher than it is today. Over the last 25 years—you can check every year—the predictions have always been that electricity demand will grow. It has kept falling. Today, electricity demand is 8% less than in 2019, pre-covid. If you check on any other activity, you will see that it is back. I just want to share the facts. I do not have a crystal ball, but I just want to share with you our analysis.

- Q279 **Chair:** Chris Norbury, do you agree with what Simone has just said?

Chris Norbury: Rachel's point is important. I do not believe that there is a silver bullet here. I mentioned earlier that there are a number of things. Yes, I believe that the role that gas plays in the wholesale market needs to be addressed. We heard earlier a reference to a report from Stonehaven, which suggests that, if you moved the gas plants into a strategic reserve, that could potentially save consumers £5 billion per



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annum. That is something that we should look at and consider to help bring bills down.

In addition to that, if I look at the non-commodity costs—policy costs and network costs—certainly some of the modelling that we have suggests that you could get to a position by 2030 where, if the wholesale price was zero, bills would still be the same as they are today because of the increase in those non-commodity costs. There are things that we can do there. We can move some of those non-commodity costs, particularly the legacy policy costs, feed-in tariff, climate change levy and renewable obligations, off the electricity bill. That would help bring bills down.

Q280 **Chair:** Where should they move to?

Chris Norbury: That is for policymakers to decide.

Q281 **Chair:** We are asking you. You are sitting in front of us.

Chris Norbury: Personally, I think that policymakers have to make a decision as to where they believe those costs are best borne and whether they believe, to the point that was made earlier, that the incentives being offered to build infrastructure are necessary. That is a choice that policymakers have to make.

Q282 **Chair:** All right, stop there. Does anybody want to say where they think the policy costs should move to?

Rachel Fletcher: I would not mind a go. The point is that the country as a whole at the moment is paying over £20 billion a year on its electricity bills for policy costs. The projections are that that is going to increase. That is one of the hundred pounds that will possibly be added to electricity bills on the current trajectory over the next four years.

It is time that we got this burden under control. There is a lot of good stuff being funded in that £20 billion, but the reality is that it is added to incrementally, piece by piece. The Department over here puts in a subsidy for new nuclear. The Department over there puts in a subsidy for CCS. There is no budgetary control of this and yet it all ends up on household bills or in contributing to making our electricity some of the most expensive in the industrialised world. I care deeply about getting it off electricity bills and spreading it more fairly across gas and electricity customers in the interests of electrification, but first we need to get the growth of this burden under control, with some proper budgetary control like we have over other taxes.

Q283 **Chair:** I am going to give a range of options and ask you to pick one. Should costs be moved to gas bills from electric? Should the money come from taxation? Should the money come from elsewhere in the energy system? There are three there.

Chris O'Shea: We have always taken the position that we think they should be on general taxation, because that is more progressive. Policy costs are £215 per bill in the current price cap. We also recognise that



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the Chancellor has a budget to balance and, as an ex-CFO, I know what it is like.

Q284 **Chair:** That is not going to happen, so that leaves you two.

Chris O'Shea: The next best thing is that they are on electricity bills, because the policy costs are promoting electricity. If you move them on to gas bills, that might be attractive, because it makes electricity cheaper and gas more expensive, but everything shows you that, because of the cost of electrifying, those who are better off will electrify first. As Simone was saying, if you have a bigger burden on smaller shoulders, the per unit cost is going to go up. If you move these costs from electricity on to gas, you will find that there is a subsidy from the poor to the rich and a further distortion in the market.

We do not support anything that increases the burden on people who are struggling to pay their bills. This is where our trading name, British Gas, is not helpful. We have about 20% of the UK electricity market. It would be in our interest, as the biggest installer of heat pumps, for everyone to be forced to go electric. It is not in the interest of consumers to bear a bigger burden of the cost. In the absence of these costs from general taxation, they are in the right place on electricity bills. They are, however, costing consumers a substantial amount of money.

Q285 **Chair:** Andrew, before you answer, retailers are not making vast profits but, as I touched on in my question, there are other parts of the energy system where people are making a lot more money. Should it come from there?

Andrew Ward: It is a really complicated question to answer. I will try to answer it in a really simple way with my own thoughts. If you look back, when the solar market increased across the UK recently, it was because the price of electricity or the price of your bill was higher. It drove customers to think of a simple business case: "I will install solar panels and save on the cost of my energy".

If we think about general taxation rather than the bill, the one concern I have is that, if we blindly move into this and do not really analyse it, we are going to create a problem for a significant proportion of this country. There are people today who cannot afford to pay for their energy bills; there are people today who are stuck in their homes 24 hours a day. If they are high users of energy and already struggling to pay their energy bills, moving between gas and electricity and impacting that group of householders in the UK will be a mistake.

To answer the question, it is really important that we go away and understand exactly what customers need protecting in this country before we start to make decisions. If we do not understand who they are, we will make mistakes and impose a higher bill tariff for them as well.

Q286 **Chair:** I am going to ask one more question, because we have a lot of questions. We will get to each member of the Committee in the next hour



and a half or so. Richard Tice wrote to some, if not all, of you warning that a Reform Government may not honour contracts for difference awarded in the current auction round. To what extent does that concern you and what effect might such political pronouncements have on energy prices in the three or four years we have until the next election, which is when a Reform Government might be elected?

Andrew Ward: We have talked about already today, but there is a significant amount of investment that needs to occur in the UK. As a company in the UK, we have stepped forward. We plan to invest £24 billion between now and 2028 to answer the challenge that the Government have put on the table. That investment, like any investment in the UK by any company, is built on a return, a guarantee and an agreement. If that agreement was to be breached, that would be wider than the electricity and gas market in the UK. That would be a bad signal for the whole of the UK if we break that agreement.

Chris Norbury: I was not in receipt of the letter, so I cannot comment on the letter. We talk about infrastructure investment, and about the skills and the jobs that infrastructure investment creates. I look at the supply side and what we are talking about in terms of the electrification of consumption. We recently celebrated our 1,300th apprentice in the UK. We are investing heavily in a training centre in Kingswinford that delivers the skills that people need to install solar, battery and heat pumps. The energy transition, particularly the electrification of consumption, is creating good skilled jobs. Eighty-nine per cent of our workforce are covered by a collective bargaining agreement.

This is something that we are absolutely committed to and it is not just about large infrastructure projects. It is about the work, skills, training and investment that can be delivered on the supply side as well that creates opportunities for people, jobs and, ultimately, economic growth. That is something that we are, and continue to be, committed to. If that were to break down, that would put those types of apprenticeships and that type of training that I have just described at risk.

Q287 **Chair:** Rachel Fletcher, am I right in thinking that Octopus received that letter?

Rachel Fletcher: We received that letter but we do not rely on contracts for difference to fund our investment into renewables, even though we have committed several billion globally, and most of that in the UK and Europe. The letter did not really apply to any of our investment decisions. I would agree that, overall, backtracking on, effectively, government-backed contracts would be bad for investment into Britain and investment appetite to invest here. It is worth saying that there is a huge amount of investment going on towards net zero that is not being backed and supported by government contracts or subsidies of that nature.

Simone Rossi: I did not receive the letter, but I will offer a comment since we have already seen the letter in the press. The real question is



whether we are building the infrastructure ahead of the demand, or so much ahead of the demand. What is the consistency between the demand and the supply? I go back to my earlier point that left some of you shocked. As I said, and I repeat, for 20 years there has been a prediction that electricity demand will grow where indeed it has fallen. Nobody seems to check the numbers. If you go and check the numbers on the DUKES, which are the Department for Energy Security and Net Zero statistics, you will see for yourself with your eyes that that is indeed what has happened.

The real question, to policymakers or Government, is to ask, "How do we balance the electrification that is a creation of the demand that might well come one day, but for the time being has not come at all, with infrastructure?" If infrastructure is built quickly, this problem that we have alluded to of these fixed costs that are increasing on a smaller base, on a smaller demand, will be very difficult to solve, because it will push up the bills.

Chris O'Shea: I received the letter. We do not rely on CfDs. There are two things I would point out. First, I would agree that anything that changes established policy undermines investment. One of the issues is that, when we invest in infrastructure—the Sizewell C investment, for example, is a 100-year investment—we look for long-term policy stability. It is very important.

The second thing is pertinent to one of the previous questions on the wholesale gas price. When you look at what consumers pay, consumers do not actually pay the wholesale gas price for anything backed by a CfD. When people talk about getting the wholesale gas price down, that is quite a red herring. Consumers pay what the CfD price is. If the wholesale electricity price goes to a pound, the CfD will simply make that back up to the £75 per megawatt-hour or so that wind farms are getting at the moment.

We have to understand just how the CfD works and what the proposal would be from future parties. If something threatens the stability of investment, it is not that it will cut investment off. It will make people require a higher return for that investment in the UK, and that is not good for UK consumers.

Q288 **Chair:** We will come back to this point. I will just give David Buttress a chance to answer the question about the impact on investment.

David Buttress: We all know in the UK that, to really reform the cost of people's bills, we need that stability of policy. Seventy-five per cent of people's bills are made up of the wholesale cost of marginal gas, the network costs and the policies. Three-quarters of people's household bills are made up of those three factors. The only way we can address the cost of energy in the UK is by having that stable policy by which we can invest in decarbonising people's homes. Without that, we are not going to be able to get the broad range of solutions that we need to address it. It



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is really important that we have that holistic approach to solving this problem and not isolate any particular one.

Chair: Thank you very much for your opening answers. I am going to ask Polly Billington to ask some questions on billing and customer service.

Q289 **Ms Billington:** Are you happy with your billing methods?

Andrew Ward: Yes. We can always do a bit better, but I will give you some insights. In 2024, we issued just over 20 million bills. Using AI, we have built various algorithms that monitor exactly what we are billing to customers, when and how. We had an error rate at that point of 240 bills out of the 20 million bills. That is still not good enough, being honest. We should not get any bills wrong, but we have built so many controls around the billing process that it gives me a bit more comfort.

I do not think that ScottishPower was very good historically, being honest. I do not think that we were very good at all. We are getting to a place now where I am a lot more comfortable. As I say, there is still more we can do. From a billing point of view, we are making sure that we are using the smart meter reads. We are putting them on the bills for customers. We look at a policy that is basically around a minimum control from a regulatory point of view, which is how we design our organisation, so that we have controls at every point for our staff and our systems as well.

Q290 **Ms Billington:** Why is the ombudsman so busy?

Andrew Ward: From a point of view of complaints hitting the ombudsman, the reality is that we get it wrong sometimes. The reality also is that a lot of the complaints that are going to the ombudsman as a bill problem are actually affordability problems. Of the two biggest root cause categories I have for complaints today, one is billing, and that translates to affordability. That is a real problem we have in this country. As I have said already, we have people who cannot afford to pay their bills. Second is metering. There are significant problems still with the functionality around smart metering, the national infrastructure and how it actually operates. We are having to contend with that as well.

Q291 **Ms Billington:** Do you think that there is any excuse for taking over six months to issue an accurate energy bill?

Andrew Ward: From the start, as in never having issued one before?

Ms Billington: From the start, yes.

Andrew Ward: It is interesting. At the moment, we have an average notification date for a person moving into a new property of 56 days. I have lettered and tried to attend that property, but the average notification is 56 days. That is 56 days, on average, of debt that has already been built up in that home.



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I feel that people in this country know that they need to find out what their energy company is. Maybe we can make that a little bit easier for customers to identify who they are with, but there is always a way of doing it. That is a problem. That is not a problem about ScottishPower issuing a bill. That is a problem about, "I don't know who to issue the bill to". We will issue a bill to the occupier, which is not ideal and I accept that. The reality is that we have a problem with customers notifying the energy company that they have moved in.

Q292 Ms Billington: There are some proposals to reduce the time before a complaint can be escalated from eight to four weeks. Is that something that you would support?

Simone Rossi: I would not support it. In our case, for example, this year we have had 175,000 complaints in total in EDF so far. Of these, 7% have gone to the ombudsman. To your point, the ombudsman is too busy with a cut-off of eight weeks. Clearly, our job is to reduce the number of complaints to begin with, but there is always going to be a volume driven by the things that Andrew alluded to. If we were to simply cut this time to four weeks, the ombudsman would receive a multiple of the volume that it receives today. It would create a new pressure on the ombudsman and probably not necessarily a better service to the customers.

Our aspiration would be to not send anybody to the ombudsman, not because they do not have the right to go to the ombudsman, but because we are able to resolve the complaints to their satisfaction before they do. The ombudsman should be kept as a little bit of a last resort, at least in my opinion.

Q293 Ms Billington: Is everybody happy that their bills are comprehensible?

Rachel Fletcher: It is an incredibly complicated area for customers. There are a huge number of regulations here, by the way, that talk about what has to be on the bill, which, for many people, makes it even more confusing because there is so much data, some of which may or may not be relevant to that customer. Whenever we send the bill out, we also send out a very high-level summary that explains to the customer what the situation was when they last paid their bill, how much they have used and how much they now owe us, in order to help people get the key bits of information that they really want at first glance. We think that those kind of efforts have helped, but there are still customers who delve into the bill that we have to provide, meeting the regulations, who get confused and therefore end up phoning or emailing for help.

Q294 Ms Billington: Do you think that the solution is for the commercial specialists, i.e. you guys, to make the communication better about the high-level simplification of the bill, or that there needs to be a change in the regulations about what has to be published?

Rachel Fletcher: A bit of both would help. We are constantly reviewing how we communicate with customers, looking at the feedback and testing new forms of communication before they go out with small cohorts of



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customers to find out how they are landing. We do other things to help people understand their position with us. There is information we put on the app, a balance forecaster and things such as that. Streamlined regulation that is much less prescriptive might help to remove some of the confusion as well.

Andrew Ward: To add to what Rachel said, I agree with the point in terms of some of the information that we need to put on the bills, but some of it is actually really helpful. If you have a power cut, you can understand where to go and the bill will help you and direct you to that. We try to put a lot of that information in a certain section. We have recently completed an exercise with Plain Numbers, an organisation designed specifically to help people understand documents such as an energy bill. The feedback we have had from customers is really positive in terms of what we have done so far.

The challenge, though, is also surprise. This is what we need to do better at. It is the surprise when the bill arrives through the door and the customer says, "How could I possibly have used that energy? How could I possibly have done that? There is no way I have done that". I was a young man once, in the energy company, sitting in the call centre, speaking to customers. That scenario has never changed through all these years.

In ScottishPower, especially with the advent of smart meters, because we have really granular data, we are making sure that we communicate that data to the customer in a regular way so there are no surprises, or we try to reduce the surprises. Then, when the customer has to pay something, we have had that discussion and they have had that transparency throughout as well.

Chris Norbury: We have an interactive digital bill. Over 80% of our customers prefer to serve themselves online. We have an interactive digital bill. We are constantly trying to improve it. We monitor something called a struggle score, so we can see the areas of the bill that the customer is hovering over, struggling with and trying to understand, and then we are constantly trying to improve that interactive bill.

You can click on it. It explains what the bill is telling you if you do not understand it. It can tell you which appliances in your house are consuming electricity. It is getting better. Is it as good as I would want it to be? No. Is it getting better all the time? Yes, it is.

The key thing that Andrew just touched on there is smart. To your question earlier, where we have operating smart meters, I am more and more comfortable with our billing performance and the communication that we can have with customers on the bill, but that depends on the customer having a functioning smart meter. For me, that is a really important point when it comes to avoiding the type of shock that Andrew touched on earlier and offering the type of experience that we would want to offer.



Chair: We will come back to smart meters shortly.

Q295 **Mike Reader:** I just want to pick up on a couple of things you said, Andrew, because I quickly checked the energy consumer satisfaction surveys. Dissatisfaction with your company is double that of all your peers, at 13%. How can you tell us that you think your billing is robust and you are providing a good service to customers when 13% of your customers are dissatisfied with the service you give them? Does that make you feel proud?

Andrew Ward: No, and I would never sit in front of anybody and say that I believe fundamentally that we have got everything right. Every month we are looking at our customers and trying to understand whether we are getting better or worse. I can see for the last six years how hard we have worked as a company because, as I have said already, I do not think that we were very good. We are a lot better now than where we were. We can still move even further. I look at the survey that we run every month and I can clearly see that our customers are being more and more satisfied as the months go on, and that is direct feedback from them.

Q296 **Mike Reader:** Is the Ofgem data wrong? Is Ofgem measuring it wrong if you think you are improving but it is not showing that?

Andrew Ward: The reality is that it is a survey and there are so many surveys that are issued around the energy sector. I fundamentally believe that the one true measure of satisfaction is to ask the customer themselves in every interaction you have with that customer. In ScottishPower, something we are going to be landing at the beginning of next year is the production of our own customer satisfaction metrics, which will measure every interaction that we have with a customer. We are going to present that to customers and not going to shy away from it either.

Q297 **Mike Reader:** Can I quickly ask you all a yes/no question? Is customer satisfaction linked to your remuneration, bonus, balanced scorecard or whatever you have?

Andrew Ward: It is not directly linked, but it is there.

Simone Rossi: Yes.

Chris O'Shea: Yes.

Chris Norbury: Yes.

Rachel Fletcher: No.

David Buttress: Yes.

Q298 **Mike Reader:** For those who said yes, at what point does your satisfaction level trigger you not getting a bonus? At what point does it get bad enough that you do not get a bonus?



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Andrew Ward: It is linked to the effect that it has. Dissatisfied customers leave you. Dissatisfied customers complain to you. They will call you and that imposes a whole manner of implications on my objectives and the team's objectives. That is why we focus on customer satisfaction.

Simone Rossi: For us, it is a Trustpilot score below 4.7.

Q299 **Mike Reader:** If your Trustpilot goes below 4.7, you lose your bonus.

Simone Rossi: Yes, if it is 4.6, for example.

Chris O'Shea: For us, it is the level of customer complaints.

Chris Norbury: For us, it is customer NPS based on four key journeys, including billing, complaints journey, smart meter installs, et cetera.

David Buttress: I clearly have quite a tough board, because mine is both complaints and NPS. While NPS has doubled in the last 12 months in terms of improvement, I am still below, so there is still a long way to go, but I think that is the right aspiration to have as a CEO. You can always do better for your customers.

Q300 **Mike Reader:** We have had some quite stark evidence around some real issues with customers' experience. Have you ever lost your bonus for poor customer satisfaction?

David Buttress: In terms of the target?

Q301 **Mike Reader:** Have you ever not got your bonus because you failed on customer satisfaction? Is the measure tough enough to actually worry you about customer satisfaction?

David Buttress: For me, last year, so yes.

Andrew Ward: Yes. I have lost part of my bonus for some number of years as a result of not achieving and making sure that we deliver good customer satisfaction.

Simone Rossi: We have maybe 10 different measures. We never score the whole measure, depending on the situation. The customer satisfaction is an improvement journey and I cannot say in any year we scored zero on customer satisfaction.

Q302 **Mike Reader:** Chris, with your complaints have you ever got close?

Chris O'Shea: Yes, my bonus has been reduced because of that. I also voluntarily waived my entire bonus for three years because I did not think that customer experience was in the right place.

Chris Norbury: Yes, my bonus and that of the senior team in the UK has been reduced significantly when we have not hit our NPS metrics.

Q303 **Luke Murphy:** I wanted to ask about the standing charge. The standing



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charges have increased quite considerably in recent years. Ofgem has put out its proposals for reform. Many consumers feel like they are too high, regressive and not fair, particularly if you are a low energy user. What do you think about reforming the standing charge? What do you think of Ofgem's reforms? Are consumers right that it is unfair and regressive? How would you change it?

Chris O'Shea: We are very vocal, and have been for a while, that the standing charge should be abolished completely. We should have a single unit price for electricity and a single unit price for gas. Ofgem's proposals are well intentioned but poorly thought out. The idea that you would give people an option as to whether they would go for the standing charge or not will probably give rise to higher costs in the market. We believe that the standing charge should simply be abolished.

There are some edge cases where people, for example, who have high-energy-consuming medical equipment in their home that is required to keep them alive would suffer if the standing charge was abolished and the unit rate went up. We can deal with those issues by giving relief in other ways for those people. By and large, we believe that the standing charge should be abolished. It has gone up by 8% in the past quarter. It is now £320.14 for the average customer, so it is getting close to a pound a day. We think that that can simply be absorbed into the unit price.

Q304 **Luke Murphy:** Would there be an additional premium as part of that unit price under an abolished system in order for you to manage the risk of non-payment? Would billpayers' bills potentially go up in order to cover your risk?

Chris O'Shea: No, there would not be an added premium for non-payment. The average bill would stay the same because you would simply redistribute the standing charge on to the unit price. You would make what is a fixed cost into a variable cost. There is no prospect for us to do that. Ofgem sets prices.

Andrew Ward: I have a slightly differing view in terms of the standing charge. I have been in the industry for about 34 years now, so I remember when the first no-standing-charge product came in. The reality is that the market has been designed in a way where a lot of the investment cost is recovered in the standing charge, which provides certainty for investment in the market.

It is absolutely fine to look at whether we abolish standing charges. As Mr O'Shea said, it may be the right answer as we move forward, but there are some fundamentals in doing so. The approach at the moment from Ofgem is to suggest that we just need to get on with it and do it. I think that we should be stepping back and really analysing the data a bit more. I will explain why very quickly.

When you look at my customer base, if they move to a no-standing-charge tariff tomorrow, more than half will actually be financially worse



off, which I think is your question about whether there is a premium at the start. Is there a higher rate for so many of the additional units? They will actually pay more. The fundamental point goes back to what I alluded to earlier—

Q305 Luke Murphy: It is under Ofgem's proposal, I think. My question really was whether you, as a group, would require it to be higher in order to manage that risk.

Andrew Ward: I would for the first few kilowatt-hours. The problem is that we do not really know what that customer is consuming with that energy. It goes back to the point that we need to identify the customers who need to be protected and ringfenced in this country. I have asked for it and I am now getting rather exasperated with it. I have asked for it for a number of years now. We need data from the Government. We need the DWP data. I need income data, as well as data that we all probably have as energy companies. We can pull it together and identify the people in this country who we need to ringfence.

As part of that question about standing charges, I feel at the moment that we are just tinkering around the edges with certain things. Whether or not it is correct to remove standing charges—we need to do more analysis, because there has obviously been a lot of analysis—we need to do more than that. We need to pause and think about it before we jump headlong into something. I remember years ago dealing with customers personally, as an individual in the customer service team, where they were financially worse off. That is the danger.

Chris Norbury: I am on record as saying that, yes, we could and would support zero standing charges for all, for the reasons that Chris has described. However, the point Andrew makes is really important. We cannot simply move costs around in the system. There are two things.

One, on the standing charge topic, we have had a product in the market that was a low-standing-charge product, so we have tested it. We found that 63% of the customers who opted for that product would have been better off on a standard fixed tariff. They opted for it because of the sentiment around standing charges. They did not understand what they were opting for, and that is in a controlled environment. We have pulled the product from the market. We have then had to bring those customers off that product. I am concerned about the proposals that Ofgem is making on the optional standing charge. We would support it if it was done properly and done for all, as had been described earlier, so zero standing charges for all.

The second point is in terms of data sharing and protecting those customers who need it most. That is hugely important. If I look at other markets that we operate in, so the Dutch market for example, Essent, the largest supplier in the Netherlands, is an E.ON company. In the Dutch market, you have a means of targeted support for those people who need it most that makes up the delta in terms of household income. If the



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energy bill is more than 10% of household income, targeted support makes up that delta. It operates because you have a trusted third party that administers it. Government shares data with the third party. The customers share data with the third party. The energy suppliers—in our case Essent—make the payment.

The UK is an outlier in all the markets in which we operate in not having that type of targeted support. There are examples of data sharing in many other markets and it is really important. Yes, we could support zero standing charges for all. I am concerned about optional low or zero standing charge tariffs, because customers will make the wrong choice no matter how well we engage with them. We have seen that in our test. Data sharing and targeted support is really important.

Q306 **Luke Murphy:** What is the problem with data sharing? I think that everyone around here would say, "Yes, absolutely", so what is the issue?

Andrew Ward: We have been asking for this for ages.

Q307 **Luke Murphy:** I know you have been asking for it for years. You have been around the block. What do you think the barrier is to the Government doing it?

Andrew Ward: It is crystal clear. We need the means-tested benefit data and income data from HMRC. Bringing it together with data that we all have allows us to identify those people who are genuinely struggling to pay their bills and need support.

Q308 **Ms Billington:** If you have been asking for that, why do you not have it?

Andrew Ward: I have no idea why.

Q309 **Ms Billington:** Has anyone explained to you why you have not got that from Government from before? You have asked for it and just, what, had a total wall of silence? You never had a letter back or a response.

Rachel Fletcher: This is sitting between two Departments: DWP and the Department for Energy. It is always complicated for two Departments to make arrangements of this nature that satisfy data protection requirements. I am sure that it is a matter of frustration for people in those Departments as well, but I do not think that we are necessarily privy to why it is not working, except that we have seen this dynamic before.

Simone Rossi: We can be encouraged, because we are not as bad as we used to be. For example, in the warm home discount attribution, I remember three, four or maybe five years ago there was still a system where people had to ask for it. Some people got it. Some people had to ask for it. It was not clear. Some were surprised that they did not get it.

The situation has improved. There is a level of data sharing or cross-information that enables us to better administer this tool. Clearly, I am talking about the glass half full. Maybe it is not even half full, but we can



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say that some improvement has happened. It is not like we are stuck. Of course, compared to this, the Dutch model that Chris described is a different planet, so maybe what further improvements are realistic would be the question.

David Buttress: Several of the panel actually attended an event. OVO has been one of the companies leading the charge on the call for a social tariff. We asked this question at the event that was hosted at Westminster around this. It was very clear that it is a data protection issue, I believe. If we could solve the data protection issue, we can absolutely get after this, but, more importantly, we all know that the real answer to this is a social tariff, which will really help the consumers who need the help.

Q310 **Ms Billington:** That is what I was going to follow up on. From what I understand, having talked to a number of people about energy social tariff, fundamentally, if we had the data, a lot of this stuff would be possible. Personally, I am gobsmacked. The last Labour Government had tackling fuel poverty as a target. The fact that this was not rationally managed back then seems to be extraordinary. However, we are where we are. A piece of legislation that enables that data to be shared between the appropriate Government Departments and a third party, and enables you to administrate it, would help with targeted relief. Is that right?

Andrew Ward: That would be fantastic, because we would be able to move away from reactive help to proactive help.

Q311 **Ms Billington:** We will explore that in a moment. What would a successful energy social tariff look like, in your view?

Chris O'Shea: It would be very straightforward. There are people who cannot afford to pay any of their energy bill. If we had the right data, they would simply not receive a bill. Those of us who could afford to pay more would pay more, so you would have something that was a self-balancing mechanism.

Now we cannot differentiate between those who choose not to pay and those who are unable to pay. Some who are unable to pay cannot pay it all, but they can pay some. Ideally you would have something whereby you could establish bands and people with a certain amount of income and a certain amount of expenditure would have no energy bills and then it would go up in bands. Those who have a lot of disposable income would pay substantially more for their energy.

Energy companies would make the same. The total cost of energy would be the same. Those people who cannot pay anything or cannot pay the full bill would avoid the stress, mental ill health and anguish of getting a bill that they cannot afford, going through this whole process and ultimately not paying.

Q312 **Ms Billington:** Forgive me. Chris, you have outlined what the outcome might be. What does the social tariff look like, from your perspective?



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How would we design this? That is what we are really talking about. When I have been campaigning for an energy social tariff, I have been doing the classic campaign thing of, "We need a social tariff. There are X number of people who need it, or X number of characteristics that need to be protected", but you are the energy sector experts. You are the ones who deal with customers all of the time. You know how you do your billing, your smart meters and all that malarkey.

Chris O'Shea: It would be very straightforward. If you had data sharing, people would be characterised based on their ability to pay. You would have no standing charge. We advocate for no standing charge. You would have a single unit rate of electricity and gas. If you were extremely poor, your unit rate would be zero. If you were very well-off, your unit rate might be 60p per kilowatt-hour, whereas today it is probably 27p or 28p per kilowatt-hour. Somebody who is very well-off would be paying two energy bills, and somebody who cannot afford to pay would be paying zero. It would be very straightforward. Those people who could not afford to pay anything may get a bill for zero, saying, "You have used X but you are not going to be billed anything", or they may not get a bill. It would depend how we design it.

In between, you would have people who go from zero to 5p, to 10p, to 15p, to 20p. You could have it in increments of 1p or of 10p, but it does not really matter. What matters is that we get away from this thing of billing people who cannot afford to pay, and the social shame that they have. We have invested a lot of money in helping people with debt. If we could simply not have them get into that debt in the first place, we could redirect that benefit. It is very straightforward to design. Effectively, the price cap today is a social tariff.

Q313 **Ms Billington:** Does everyone agree with Chris?

Andrew Ward: Yes. If I can add to it as well, my colleagues in Spain have an equivalent of a social tariff, and they subsidise the gas. They make it slightly more complicated than what Chris has outlined in terms of the two extremes. They have a step through the subsidies that they provide. It starts as a minimum of 50% and moves to 100%. As Chris has highlighted, it is exactly how I would probably implement it in my billing platform.

Q314 **Ms Billington:** Somebody said no.

Rachel Fletcher: I said no. The whole situation is, unfortunately, even more complicated than this. Polling suggests that about 73% of households in this country are worried about paying their energy bills. Now, they are not all in the same position, but you have to get to households who are earning £100,000 or more before you see that concern about the affordability of energy start to fall off. The scheme that Chris has set out—unless dealing with a very small number of people spread over a very large number of people—just tips more and more



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people into that position where they are really at the edge of being able to afford their energy.

Q315 **Ms Billington:** It is more expensive for more people.

Rachel Fletcher: Absolutely, and not only does that create social and political issues, back to where we started in this conversation, but you have fewer people being able to electrify their homes. We are even less far on our decarbonisation journey, yet we have built power stations and networks assuming that demand for electricity is going to be two or three times the size it is today. We have to be incredibly careful about this. In our view, the focus has to be on making the cost of the electricity system lower. It has to be more efficient.

Yes, there is probably scope. If we had the kind of data that we have just been talking about as a company—to Andrew's point, the £40 million that we have to support customers—we could be proactive and targeted about supporting those customers, instead of waiting for them to come to us, or for us second-guessing who might need an electric blanket to get them through the winter, or who might need a payment holiday on their energy bill.

I really support data sharing. It is a real shame it has not happened, despite the fact that we have been talking about it for a decade. We are definitely up for a conversation about whether there is an opportunity to help more people if we have better data. Going back to where we started today, we are spending close to 50% of the ECO budget on finding eligible homes. That is a crying shame. If we had proper data, we would not need to have that administrative cost. We would know who is eligible for a home upgrade to green and cheap power, who could be then making their warm home affordable without a subsidy. We need to think about this more broadly. We certainly must not fall into the trap of believing that a social tariff is the answer.

Going back to standing charges, a lot of the concern about standing charges is just because people cannot afford their bill. To the points others have made, where Ofgem is not going to solve any problems could make things worse. To some extent, it is trying to solve a problem it created, because the root of the uproar about standing charges was an Ofgem decision that inadvertently increased the electricity standing charge by £80, which it could very well just go back and reverse. If we are not looking at these broader questions about the costs of the electricity system overall, all we end up doing is robbing Peter to pay Paul, and we are not actually getting ourselves into a better position.

Andrew Ward: I share some of Rachel's views, but slightly differently. Energy debt is going to reach £5 billion by Christmas. It is completely out of control. The reality is, as Chris highlighted, that we have people today who cannot afford to pay for their energy bills at all. A social tariff is a means to actually try to help us as we transition through. Therefore, that is why it is important that we look at this now. ScottishPower has been



asking for this to be looked at since 2017, but it is not the root cause. It is not how we get out of this, which is where I do agree with Rachel. We cannot continually work with a social tariff in a way that we have possibly outlined today.

Part of the root cause is the poor housing stock that we have in the UK. We have some of the poorest housing stock in Europe. On the ECO programme—and I have lots of customer testimony—when we take that step and take that change to the customer in their home, we can save £1,200 from their annual energy bill. That is life changing. That moves them to a place where they can actually afford to pay for their energy, because in my experience most of the people in the UK want to pay their energy bill, but they have no means to take that step. We are talking about spending £22,000 on a home. They cannot do it. We touched on paying for heat pumps. The ECO programme provides that; when done well, it provides a root cause solution, and hopefully helps to take that household out of what can be classed as fuel poverty. That is how we remove the root cause.

Two years ago I presented a number to Ofgem and said that, in my calculations, taking the housing stock that we have today with an approximation of who qualifies for ECO, it would take us 33 years at the current rate to address all the homes in the UK. That does not address the ones that we are still building that we are not making energy efficient, which is the right way of protecting the customer from higher energy bills. That is what we need to double down on.

We need to think about how we are going to move forward with ECO, and how we are going to make that scheme work for us, but at the same time we need to do something now, today, for some of these customers in the UK. We need to face into it, and at this moment in time I do not believe we have faced into it. If we run a scheme in this country without targeted data as an intervention for households, it is pointless. We need that data.

Chris Norbury: I agree with a lot of what Andrew said. Yes, there is a lot in what Rachel is saying. Yes, ultimately we need to bring the overall cost down. If you look at the work that I described earlier that we are doing in Coventry, where we are putting a battery and a time-of-use tariff into a customer's home, that is bringing bills down by at least £255 per year. That is the direction that I would like to see, for example, the warm homes plan take, to get the benefits of batteries and get the benefits of flexibility into the hands of lower-income families. That is a destination, but you need a bridging mechanism. That bridging mechanism, for me, is a social tariff.

To your question about design, we have shared with Government and we have shared with the regulator many times the designs that we see in other markets. There are multiple options. We have described what exists in the Dutch market. We have examples from the Italian market. We have examples from Scandinavia. There are multiple designs for a social



tariff. We should not let perfect be the enemy of good in its design. We need to get on and do it as a bridging mechanism, and then focus on how we use the warm homes plan to deliver energy assets and insulation in a home to give people a sustainable solution.

Chair: We will ask Ministers why the data is not being shared with you. It will be interesting to hear what their answer is.

Q316 **Torcuil Crichton:** Thank you all for coming in. I appreciate your time and your expertise. It is past half-time, but there are no oranges, I am afraid. Can we do a rewind just to pick up, Rachel, on an exchange you had with the Chair there about these non-commodity costs? You seem to be suggesting that we might be building too much infrastructure and too much electricity.

Rachel Fletcher: If you look at where we are going on electricity transmission, Ofgem is very close to effectively agreeing that we need to spend £80 billion on electricity transmission over the next five years. As I said earlier, that could add roughly £100 to a typical electricity user's bill over the next four years or so.

It is undoubtable that we need more electricity transmission. We are having to pay wind to turn off in Scotland, costing us this year probably north of £1.5 billion, because we do not have enough transmission lines to send it to where it can be used. There are huge question marks about whether we really need £80 billion worth. Given that demand has been falling for the last decade or so, it is not a surprise to know that those networks are massively underutilised.

There is massive uncertainty about how quickly demand will increase. We seem to be in a situation where the regulator has just taken the plans from the system operator, agreed a price to them, and said, "Okay, customers, away you go. You have to pay for that", in the context where we really need to be getting electricity bills down. Can we just put a halt to a big chunk of that expenditure and give it a really good review before locking customers in to paying for something that we might not need in the next five or 10 years? There might be a cheaper way of delivering it if we really gave ourselves more time.

Ofgem has been considering introducing competition in the provision of new transmission lines for over a decade now, and keeps stalling on it. That could be delivering new sources of capital and lower costs of capital.

Q317 **Torcuil Crichton:** Get it right rather than get it fast—that is what you seem to be saying.

Rachel Fletcher: You can get some of it done fast, but you can be making sure that the cost of that network is only hitting customers' bills when they really need it, rather than paying for it now, when it is not at all clear that it is going to be needed, or that current plans will deliver it in the most efficient way.



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Q318 Torcuil Crichton: You hit on it there. Common to every question has been getting bills down and reducing the cost to consumers, but you guys are sitting there making more money than Scotland spends on education each year. Chris, your profits were £1.6 billion last year. EDF made £3 billion profit before taxes. ScottishPower is sitting modestly on £1.9 billion of profit last year. These are enormous sums, big profits, which consumers who struggle with their bills might see as profiteering.

Chris O'Shea: You have to look at the profit on energy retail, rather than the profit of the company, because if you focus on the profit of the company, you will encourage companies to simply hive off their energy retail businesses. That is not in the interest of consumers. We made around £200 million from retail and energy last year. We made about £30 a customer, pre-tax, so after tax that works out to just under £20 a customer. We were one of the most profitable energy companies, so most of us are making somewhere between a loss and £20, post-tax, per customer.

We choose to invest our money in things that the UK requires, such as nuclear power stations, gas-fired power generation and the like, in order to make sure that the lights stay on. Using those profits to subsidise energy retail, first, would be illegal. Secondly, our shareholders would simply tell us to invest that money elsewhere. It is really important to look at how the profits are made. Ofgem allows a maximum profit of 2.4% on energy retail. The maximum allowance is £42, in the price cap, profit per customer for a dual-fuel customer. Very few companies achieve that, because we tend to spend more costs than allowed by Ofgem.

We saw the energy market collapse in 2022. Ofgem presided over a massive collapse in the energy market that cost every consumer in every household in the UK £80, because of poor regulation, poor oversight. Frankly, it was a predictable and predicted market collapse. We remain worried that that same thing could happen again. If you compare the margins that are made in the UK energy retail market to the margins that are made elsewhere, they are, at best, half. In most markets that did not implode and did not collapse under poor regulation, the margin is 4% to 8%. We see that in Ireland. We probably do not see it in France, actually, because there are other things, but we see that in other markets. There is a narrative that energy retailers are making an awful lot of money off the back of consumers, but the facts simply do not show that.

Q319 Torcuil Crichton: I get your passion about social tariffs and trying to find customers who cannot pay, but you could save people a lot of money by reducing your bills.

Andrew Ward: Well, if you look at customer business, which is what I ran for ScottishPower over the last five years, I lost money three out of five years. Over the five years, I have made £50 million, which is less than £10 a customer, just to put that into context. It is not a high-profit part of the energy system in terms of being a retail energy company. We are here to support a mechanism that was designed a long, long time



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ago, where we invest elsewhere in the energy sector. We are that pass-through, that conduit, towards someone's bills.

From a ScottishPower point of view, the £1.9 billion you refer to is split between the customer business, which I have highlighted where we are, our networks business, which is now the second largest networks business in the UK, and our renewables business, which has 40 wind farms across the UK, both onshore and offshore. As I highlighted earlier, while it was £1.9 billion last year as a total for all of those companies, we have committed to invest £24 billion between now and 2028 to answer the request from the Government to help us transition the UK.

Simone Rossi: For me, it is very simple, because in EDF we have always invested in the UK about twice as much as the profits that we make every year in the past and the present. This year, our investment in the UK is £5.5 billion. When it comes to the customer business, the supply business we are talking about, this year we intended to make 1.5%, but we will fail because of the bad debt charge. We now have about 5% of bad debt charge, which is where customers do not pay their bills. Some cannot afford it, but some just do not pay. This is the reality of the sector. As Chris alluded to, it is barely viable at the moment, so it may be difficult for the operators to continue to stay in this sector in these conditions. I understand that bills are very high and there is a lot of work to be done, but this is the reality.

Q320 **Torcuil Crichton:** I have some granular questions on smart meters, which I might bring to you, Chris and David, because after high bills, the biggest complaint I get—I am sure other constituency MPs do as well—is about smart meter installation, how they are not installed or, when they are installed, they do not run. I have casework here from my own constituency, which has some of the highest fuel poverty figures in the UK, and some of the worst patchy broadband. Chris, you mentioned smart meters earlier, and them being a solution. They are a problem for a lot of people. What are the problems for you in rolling it out?

Chris Norbury: It is one of the main drivers of customer contact that we have as well, so I do understand. Just to give some context for us, we have our smart penetration. The proportion of our customer base that has a smart meter is currently nearly 71%. We will be at just over 74% by the end of this year.

Between 93% and 94% of our smart meters are currently operating in smart mode, which means that 6% to 7% of our customers with a smart meter are not getting the experience that they should have. That is removed beyond the end of this mandate. We have to focus on the experience that a customer with a smart meter has. We have to focus on not repeatedly campaigning to customers who have already said they do not want one, but demonstrating the value that having a smart meter can bring, not through an in-home display, but through the type of time-of-use flexibility tariffs that I described earlier. It genuinely saves people money.



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In terms of meters not operating in smart mode, the biggest area of concern that we have is the performance of the DCC, the Arqiva network in the north of England. If I look at small business customers of ours with a smart meter who are on that Arqiva network in the north of England, in some locations performance drops as low as 82% of those smart meters operating in smart mode. Sadly, we cannot fix that for our customers by simply replacing the meter or servicing the meter. That is the performance of that network that they sit on. That is one of the biggest drivers of poor customer experience.

Q321 Torcuil Crichton: What is that relationship with DCC, then, in trying to get the data to you? I mean, there is a smart meter there, but the broadband is not working to get the data to you. That is one of the points.

Chris Norbury: I am not trying to obfuscate. I will come back to you in writing.

Q322 Torcuil Crichton: It works or it does not work.

Chris Norbury: In the case of that Arqiva network in the north of England, it does not work effectively. It does not work as well as it should work.

Chris O'Shea: One of the issues is who is in charge of controlling the DCC. We expect Ofgem to require the DCC to have certain performance standards. They have not been managed properly. Therefore, the DCC effectively has some performance standards, but they are not particularly stringent. We are trying to install smart meters and you cannot connect them. I am sure it is the same for everybody. That is not a problem for the DCC. There is no punishment for the DCC. We are punished as suppliers by Ofgem if we do not install enough smart meters. There is a real issue in terms of the oversight of the DCC. That has to come from the regulator, and that has been sadly lacking for years.

Chris Norbury: Sorry, Torcuil, I thought you were asking about the technical reason the network did not operate. In terms of oversight, just to give you a feel for it, we have paid nearly £6 million this year in discretionary payments to people, an awful lot of which is as a result of people's smart meter not working correctly. In that instance, if this was in many other markets, we would be able to recover those payments. If we were not accountable for the faulty product, we would be able to recover those payments from the people who were accountable. You cannot do that in this market. That is an example.

Q323 Torcuil Crichton: David—as well as everyone else—the smart meter roll-out has been pushed back. Is there any point in even thinking about mandatory smart meters if smart meters are installed but just do not work?

David Buttress: If you look at the data, around two-thirds of our customers in the UK now have a smart meter. We are one of the best



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performers in terms of smart meters. We have invested a lot of time and effort in this over the last year or two. They do work in the vast majority of cases. For non-comms, which is what Chris is talking to you about there, that does happen and does cause an issue. In Scotland we have the RTS issue, which we have been working really hard on.

It is worth noting two things around smart meters. We can do more to really strongly encourage consumers here in the UK to get after an installation of a smart meter. We should really be more on the front foot about this as an industry and as a regulator, because the reality is that when a consumer installs a smart meter they actually lower their energy bill by just over 3%. That is an immediate action a consumer can take to lower their energy bill, just by getting a smart meter in. We can see that in the data. It is just over 3%. They lower their energy bill. They can do that.

Second of all, it would fix a significant amount of billing issues that we have spent a bit of time talking about today. While there are things about the smart meters that we can absolutely improve and make better—non-comms being a big one—let us also recognise that, in the vast majority of cases where consumers have one, those smart meters work very well and provide very accurate billing. It helps us in industry be more efficient. We can serve up digital bills through apps, et cetera. That is something we should also be encouraging.

My last quick point on smart meters would be that there is a very practical thing that we could recommend, and that is for landlords and for the rental housing market. It would be great if we could really put a policy in place that would insist on landlords and the professional rental market installing smart meters. That would help tenants. It would help lower-income households. It would really help the industry to provide accurate bills, in a timely fashion, to that part of the market.

Chris Norbury: This matters to me. For the 93% to 94% of our customers who do have an operating smart meter, we see that they are less likely to be in debt and their bills are more accurate. Most important is the type of propositions that we can offer them. I talked earlier about shifting your energy consumption to lower price points during the day. That relies on you having a smart meter. Some of the flexibility products we talked about earlier rely on you having a smart meter. We need to be demonstrating that value to customers through those propositions that save people money.

To David's point in terms of change of tenancy, this is hugely important in the level of debt that exists. Andrew mentioned it earlier; theirs is slightly worse than ours. The average notification for us is 53 days in a commercially tenanted property. That is 53 days where we do not know whether there is anybody in the property, and, if there is somebody in the property, who they are. You have energy consumption in that period. You have final debt associated with the customer moving out. It is a



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simple thing to do. I understand the debate about mandation. Maybe that ship has sailed, but mandating smart meters for commercially leased properties would be a step forward. That would help landlords. It would help customers. It would reduce debt. That is hugely important.

Q324 **Torcuil Crichton:** Chris, as a final word on this, the Data Communications Company is not here to defend itself. You are saying Ofgem needs to be muscled up to make it do its job. That relies on Ministers telling Ofgem to do its job, does it not?

Chris O'Shea: There are hundreds of millions of pounds spent on smart meters in the DCC. There just needs to be some oversight. At the moment, there is not appropriate oversight. We cannot do that as companies, as Chris was saying. We cannot claim back additional costs that we have, so it effectively has a bit of a free ride. If what we are looking for is a market that works in the interest of consumers, I would expect the regulator, if it does not have the powers already, to seek those powers and to regulate it properly. It is very, very frustrating, because we are the ones who have the complaints from the customers. We have to bear that.

Torcuil Crichton: That is good evidence. Thank you, all.

Q325 **Ms Billington:** This is about gas disconnection. Is it right that, when somebody contacts you to end their gas service, you either charge them thousands of pounds to remove the meter, or continue to charge them gas standing charges? Do you think that is okay?

Rachel Fletcher: Our company policy is not to charge the customer at all. We know that different gas networks will charge the supplier, but we do not pass that on to the customer.

Q326 **Ms Billington:** You absorb that cost.

Rachel Fletcher: We absorb that cost. I do not know what other suppliers do, because there are no regulations around this. It is certainly an area where there could be more transparency for the customer. If there was going to be a conversation about this, you could talk about, for example, simply charging the customer a single year's standing charge equivalent for capping their meter, and then they know that they are going to get the value back very quickly. Until there are rules in place, our approach is not to charge the customer at all.

Q327 **Ms Billington:** You do not charge them for removing the meter, or continue to charge them gas standing charges.

Rachel Fletcher: We do not.

Q328 **Chair:** I am going to ask for a refund for the period where you did charge me. We will talk about it separately.

Q329 **Ms Billington:** That is interesting. What about other companies?



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Andrew Ward: We have a pass-through cost. It is about £250 that we charge a customer for disconnecting the gas meter completely.

Q330 **Ms Billington:** What are other people's fees for this? None at all—for when people stop using gas?

Chris Norbury: If somebody stops using gas and they want their gas meter removed, we will remove their gas meter for free.

Q331 **Ms Billington:** You do not continue to charge them standing charges.

Chris Norbury: No.

Q332 **Chair:** Andrew, you charge for doing it.

Andrew Ward: For the job, and that is it. They are not billed any more. There are no standing charges. The meter is removed. The supply is permanently disconnected.

Simone Rossi: If the meter is still there, you should be charged a standing charge, of course. If the meter is removed, there is no more billing.

Q333 **Ms Billington:** Do you charge for removing the meter?

Simone Rossi: Yes.

Q334 **Ms Billington:** How much is that?

Simone Rossi: I do not know, but we certainly charge. There is a cost for disconnection. It is an act; you make a choice, and there is a cost to it. I do not know what the cost is.

David Buttress: Yes, we charge. We charge £106 to disconnect. It actually costs us a lot more than that, because, of course, we have to send it to the engineer, and it has to be done safely when you disconnect gas and meter, as you will appreciate. We send someone on. It can actually cost thousands of pounds. The reason why we charge that is because we think it is fair that, if you are the person doing it, there should be a charge, whereas if we did not charge, in reality, that cost would be spread across all customers. We take a view that it is fair to charge something.

Ms Billington: So £106 for OVO and £215 for ScottishPower.

Q335 **Chair:** Simone, it took me a few seconds to find out that EDF charges £80. You might like to know that.

Simone Rossi: I was minded to write to the Committee, but you have beaten me to it. Thank you so much.

Ms Billington: Chris Norbury and Chris O'Shea?

Chris O'Shea: I will have to write to the Committee.

Chris Norbury: I do not believe we do charge for the removal.



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Q336 Ms Billington: Do you advise on the cost of gas connection and disconnection when people come to you, saying, "This is how much it is going to be?", and there is a clear pathway to going from gas to electrification. Ultimately, this is about the consumer's just transition, frankly. We are going to be shifting away from gas to electricity. I know we have been talking about the fact that some people cannot afford anything. At the moment, there is no calibration on what that cost is. It is a flat-rate fee, yes?

Andrew Ward: Just to be clear, though, when you have mentioned customers who cannot afford to pay, there is a slightly different treatment at ScottishPower. For example, the most common case just now would be an ECO scheme intervention. As part of that, if we are disconnecting gas there will be no charge for it.

Ms Billington: That is helpful.

Q337 Bradley Thomas: Thanks for coming in. I want to ask you a couple of questions about Ofgem, and they are linked, so I will ask them together. First, do you think that Ofgem's interventions over the last five years have led to a better market for retailers and consumers? The second half of the question relates to Jonathan Brearley's comments around Ofgem. He would like to see Ofgem have more powers. Do you think that the regulator does need more powers? If more powers were granted, could it lead to a better market for retailers and consumers? Crucially, what could the impact of greater regulatory powers be on the balance between larger suppliers and smaller, perhaps more insurgent suppliers into the market?

Simone Rossi: It is a fact that Ofgem is a large organisation that employs more than 2,000 people. The costs have more than doubled over the last five years. This is not to say that it is an organisation that is mismanaged or anything; it is just the amount of regulatory activity burden. There were more than 400 requests for information filed this year. This stratification of more and more and more is coming through the cost and the complexity of the system.

France is not a perfect market, but it is another solution. We need to question, with the lenses of affordability, whether we can afford to sustain this regulatory complexity and cost. I do not know. I am not sure about the powers, but I am sure that we have a very wasteful system today. We have lost the sense of purpose of regulation, dispersed in thousands of smaller things.

As I alluded to at the beginning, the cost to serve customers in the UK is around £100. It could be maybe half. That is another thing I would look at. A similar regulator in France has about one 10th of the people. Also, the complexity of the system, smart meters not working or the difficulty of installations drives huge contact to our contact centres, et cetera. There is no silver bullet, but many initiatives together could lower the cost to serve consumers, and maybe make the regulator more focused on



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what really matters, on a few essential things, not way too many activities. That would be my position.

Andrew Ward: If you put it into two different camps, on one side Ofgem has helped us to make decisions. It is allowing us to now invest into the UK and has helped to accelerate those decisions. That is a real positive from my perspective.

If you look at the retail market, which is where we are looking at bills, there is clearly something wrong. We have huge volatility in our sector. As we have heard already, it is not a case that we are making huge profits. The reality is that there is something fundamentally broken in how the market operates today. We have huge imbalances as well. If you think about the difference between larger suppliers and smaller suppliers, right now in the market, smaller suppliers continually have an advantage against larger energy companies. They do not have to pay for some of the policy costs and industry costs. That creates a market distortion. One of the fundamentals is therefore a fairness and a balance throughout the market, which is not there.

When we came through that terrible period where we had so many energy companies failing, we said we had learned lessons and we would make sure that this would never happen again in the energy sector. I sit here today far from convinced that that is the case, and that we have controlled all the variables in the entire retail sector. I sit here thinking that it is very, very hard to operate in this sector today.

To your question, is greater regulation appropriate? Well, it depends where we are looking. If we are talking about greater powers over another part of the industry, which is the industry that looks after boiler installation and solar panel installation, I might look back at what happened in a country such as Spain, where it did not have the regulation, I would suggest, that was appropriate, and that was then in some way abused in terms of that process. We did not get the right answer for the customer. It was not guaranteed satisfaction from that customer installation. That is a question it is probably worthwhile to explore, as to having more powers in that area.

In the retail sector there is something wrong. We need to go back and really think about it. I would not encourage anybody tinkering around the edges. It is a more reflective view of what we need to do and how we need to structure the market.

Chris Norbury: I will give you some examples from the markets in which we operate. To the first part of your question, Ofgem is roughly twice the size of the German energy regulator. German demand and energy consumption is larger than that of the UK. Ofgem is roughly twice the size.

I touched on the Dutch market a couple of times. If I look at retail regulation in the Netherlands, from memory you have six primary licence



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conditions. If I look at the way in which that market is regulated, it is outcome-based, not input-based. In terms of the number of requests that Dutch business gets from the regulator, it has had seven additional requests for information and data this year. We have had 27 to deal with in the last month, and the last month is by no means an exception. A greater degree of focus on outcomes, simplicity in terms of regulation, and the standardisation of the interaction and data that is submitted, reduces the burden of regulation.

What we see by comparison to other markets is that the returns in this market are the lowest. Our margin in our B2C retail business last year was 1.9%. The returns are the lowest in any of the markets that we operate in. The burden of retail regulation is the highest of any market that we operate in. In this market, you have had a huge volume of supplier failures. I am not confident that that has gone away. Sticking with the Dutch market, supplier failures are the exception, and consumer confidence in energy supply is significantly higher than it is in the UK market. Something there does not add up.

Chris O'Shea: If you look at the outcomes, it is hard to argue that it has been positive. I wrote to the chief executive of Ofgem three times in 2021 to say that the energy market was going to collapse, and laid out exactly why it was going to collapse. That is not because I am a genius; it is because it was blindingly obvious to anyone who had a basic understanding of economics. Those letters were ignored, and the energy market collapsed. We saw half the energy retailers in the UK disappear. Anyone who knows anything about economics knows that you get price control either by having extreme competition or by having explicit price regulation. Ofgem actively pursued both together, so it was obvious this was going to happen, and it did not act on that. That cost every consumer £80.

We have campaigned for financial resilience. It has been implemented patchily, so it is not clear that that systemic risk has been properly removed. Ofgem has recruited 900 people in the last five years. I did not know the price had doubled, but the price has clearly gone up. Yesterday, Jonathan Brearley gave a presentation at the Energy UK conference to say he does not have the right competence for the market. How can you recruit 900 people in the past five years and be responsible for that, and say you do not have the right competence?

We have to look at the output. The number of times I hear a regulator say, "This is not politically acceptable", is deeply concerning, because it is up to you guys to decide what is politically acceptable. It is up to the regulator to regulate and implement the policy, not to make the policy. We have something whereby we have this conveyor belt of short termism. We have this obsession with what the media will think about things, and therefore Ofgem regulates on that basis. It is inconsistent. It is patchy. The returns are lower. The market has collapsed. It is very hard to say that this has been a rip-roaring success.



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Now, on the other hand, it has introduced financial resilience tests, but it is not implementing them properly and consistently. There are serious questions to be asked. Ofgem is at a pivotal moment, and there are serious questions to be asked. If you look at what happened in the water industry, the recent Cunliffe report shows what happens when a regulator gets focused on very short-term measures and on being obsessed with what the media thinks. The question is, "Do we want that same thing happening in energy?" because it is entirely possible. It is hard to say that Ofgem has made the market better in the last five years. It would probably have a different view.

Does Ofgem need more powers? Until there is evidence that Ofgem is properly exercising the powers that it has, there has to be a question. Mark McAllister was recently appointed as Ofgem chair. Mark has experience in energy. He has experience in regulation. That has to be a positive. We have to see that level of expertise and competence across the piece. If any of us had presided over something where half of our business had collapsed over the past five years, we probably would not be sitting here.

Q338 Bradley Thomas: On the question of financial resilience, do you think there should be greater transparency from Ofcom as to what the market actually looks like?

Chris O'Shea: Undoubtedly. If you are simply transparent in terms of who has failed to meet the financial resilience tests, by how much they have failed to meet them, and what the recovery period is, that is all we ask. Consumers can then make their own judgment. Ofgem's veil of secrecy means that, in a vacuum, people make their own narrative. It makes it feel worse. There might be nothing to worry about at all, but we do not know.

The FCA has just conducted a review of the 11 largest bulk annuity providers in the UK. It is going to publish that. It is going to publish a list of the companies, the balance sheet strength, where they are compliant, where they are non-compliant, and what the recovery plan is. Why can we not have consistent regulation across the UK? Why can Ofgem not do the same? I do not really understand it. With so many people, it is not a lack of resource. If it is a lack of competence, that is a massive concern for an organisation that has doubled both its budget and its headcount in the past five years.

Bradley Thomas: I will get David to reply first, and then, Rachel, as Octopus is a more insurgent company, I am keen to also get your perspective.

David Buttress: My colleagues have talked about a lot of the regulation stuff. As we are talking about regulation, we should also talk about innovation. If you think about the sector over the last 15 years, you have seen OVO build a technology platform called Kaluza, which is now being deployed globally with other energy retailers. There is definitely a place



for insurgence and innovation, and we need to make sure that regulation allows for those innovative companies to come up. You have also seen Octopus rightly build Kraken and be very successful with that too. It is important to call out innovation, because that absolutely fits into part of the discussion about regulation.

To Chris's point, we must make room around how you implement policy. That is a critical point that Chris is alluding to, but we must also make room for the innovation. If you think about those two globally highly valuable innovative software platforms that have been built by both Octopus and OVO, those companies did not exist 10 or 15 years ago in this sector. It is important to call out and recognise the importance, therefore, of keeping an innovative environment and allowing those insurgents to rise in the energy sector, within the context of the regulation that colleagues have alluded to.

Q339 **Chair:** Are you saying that relates to the point about financial resilience?

David Buttress: It relates to all matters of policy, not simply that.

Q340 **Chair:** Okay, so innovation should be allowed to be taken into account when deciding on tests of financial resilience.

David Buttress: We should absolutely create a regulated environment where we allow for the fact that innovative companies can come into the sector, and disrupt and build things, and then, over a passage of time, comply with the regulations within the policy, as agreed, of course, with the regulator.

Rachel Fletcher: I want to make three points. First, I do worry that the regulatory approach to network spend is not working in the interest of customers. I am worried, actually, that the current government review of Ofgem is almost taking that as read and as outside the review, which is why one of our responses back to Government is that a successful review will have a regulator that is being held to account for customers' bills and their ability to afford their energy. It is something we should be able to take for granted; I am afraid, looking at where we are going, I do not feel we can. I did want to make that point to the Committee, because it is very important.

The second point, as others have said, is in the area of retail regulation. It is a bit like chipping into a cliff face. We have layers upon layers upon layers of regulation that have been built up over the last 25 years, with very few of them ever being removed. The whole thing has become overly cumbersome, and effectively creates costs for customers, stifles innovation and makes this market less attractive.

The reason it needs to be addressed—and addressed now—is because of what we have been talking about at this Committee. We need electrification. That is going to require new types of businesses, which probably do not look like any of the businesses sitting at this table right



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now, helping customers through that journey. Those customers also need to be properly protected.

I agree that the breadth of regulation needs to expand, perhaps to people who are installing things in your homes, the person who is managing your energy and how your heat pump is working, and the intermediaries that are in there as well. Powers need to expand, but we cannot just build on what we have, because the foundations that have been built are just completely wrong for the future.

Again, as Government are looking and reviewing Ofgem, they cannot think just about the powers. They need to be pushing for a completely fresh approach to regulation. We question, actually, whether that customer-facing aspect of the energy market is best overseen by Ofgem, when other really complicated markets that we rely on are regulated by the CMA or other bodies that can look more broadly at how you protect customers when the technology and the customer offerings are moving. There are some really big changes needed there, in line with what others have said.

On financial resilience, Ofgem was too slow to act. It is why we did have so many companies failing over the energy crisis. There were some principles in place, but there was no monitoring. There was no meat to it. There have been massive lessons learned in the regulator. I would say the pendulum has swung too far in the other direction. We are active as an energy retailer in seven other markets internationally. An equivalent-size retailer to us in any of those markets would need to be putting £1 billion less of capital tied up in regulatory requirements. That is dead capital. It is not helping customers with their bills. It is not investing in heat pumps or clever tariffs that help customers save their money. It is dead capital that is no good for anybody.

We are fully compliant with Ofgem's rules, but we also think that they need to be rethinking their approach, particularly in the interest of customers and the transition to an electrified future that so badly needs this sector to be investable and attractive to investors.

Chris O'Shea: The reason we push financial resilience so hard is that the cost of the supplier failures in 2022 fell on consumers, and every consumer paid the same amount. We believe the cost of a company failure should fall on the shareholders. Companies that are inadequately capitalised should not be allowed to participate in a market. We had to take on 80,000 customers this year from Rebel Energy when it collapsed. Ofgem relies on suppliers bidding in to take that cost, but we are no longer in the market to bail out companies that are poorly regulated and collapse. That means the cost will fall on consumers. There is a free bet for companies that are poorly capitalised. It is unbelievable. You would not let a bank continue to operate if it was not properly capitalised.

All we ask is that Ofgem comes out and say, "Is the recovery plan for those companies that do not have adequate capital six months, a year,



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five years, 10 years? Are those companies banned from taking dividends and inter-company payments out? Are those companies banned from going and buying new companies elsewhere?" If they can do all of those things, they have adequate capital; they are just choosing not to put it at risk. That leaves the UK consumer at risk of picking up the cost of failures. That would be tragic, because somebody who cannot afford to pay their energy bill—the people we are talking about who benefit from a social tariff—picked up £80. I picked up £80; I can afford that, but a lot of people could not. It was £1.60 a week over the course of a year.

That is a massive failure. Ofgem should be applauded for bringing in the financial resilience rules, and condemned for not implementing them fairly. It fined Tomato Energy yesterday for not complying, but there are three companies that do not comply. I do not understand why there is one rule for a small company and there are other rules for other companies. We fundamentally believe that the cost of failure is a shareholder cost. Our shareholders will bear the cost if any of our businesses fail, not the consumer. That should apply across the piece. That is why we are so passionate about it.

Q341 **Chair:** Can you tell us which the three companies are, Chris?

Chris O'Shea: Sorry, I cannot. Ofgem has not disclosed them. Tomato Energy has been disclosed. Two other companies have said that they are. I do not know the other companies, but I believe they are sitting here.

Q342 **Chair:** Rachel talked about the pendulum having swung too far. Do you agree with her?

Chris O'Shea: No. In the energy crisis, we had lots of good engagement with both the Energy Secretary at the time and with Ofgem. We met regularly, almost weekly. One of the energy companies that is here mentioned that it thought the capital it would have to hold was between £5 and £750 per dual fuel customer. Ofgem initially set the level at £130 and then reduced it to £115. Now, what Ofgem said off the record was, "It is easier to get something in place and then to increase it as you go forward". The inference we were given was that this would be introduced and then you would get the capital to an adequate level. It gave us two years to comply, and lots of companies here made very good profits in those two years.

If you are not compliant with the capital requirement, where do those profits go? No, I do not think that they have gone too far the other way. We have to recognise that we take customer deposits. We voluntarily ringfence customer deposits, but it is like a bank. Customers pay us in advance. When companies fail, customer credit balances disappear. That is why we have a social tariff. Other customers pick up that cost. They should not pick up that cost. If something happens to us, that money is in a separate bank account. That money is protected. We have to recognise that this is a complex industry that requires you to be well capitalised before you can participate. If you are not well capitalised, you



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present a systemic risk to this market. We saw it with Rebel Energy. We saw it with 30 companies in 2022.

Someone just said that bad debts have substantially gone up. Companies do not have an adequate capital base. We have an adequate capital base. We can wear that. We do not like it, but we can wear it. If you do not have an adequate capital base, a rise in bad debts could be enough to send you over the edge. If you are sent over the edge and nobody bails out that company, it goes across everybody in the UK. We just think that is wrong. We do not think it should be a free bet of, "If it goes well, the shareholders make a lot of money. If it does not go well, the consumers pick up the cost". That is fundamentally wrong. That is why we are so passionate about this.

Q343 Chair: I am going to give Rachel the right of reply. At the start of your answer, can you respond to what Chris said earlier, which was that customers should be told which companies have not met financial resilience tests?

Rachel Fletcher: For the record, we have been completely clear that we are fully compliant with Ofgem's rules, which are to be above a minimum, which it has set, and to have a plan to reach the balance sheet target that it has put in place. We are fully compliant with that. We were perfectly transparent about that, and made those statements to the press and publicly.

I disagree with Chris on a number of points, but for the record, we are a fully financially resilient company. Our quibble with Ofgem is that it measures financial resilience in a very narrow fashion, looking simply at balance sheet strength, when there are multiple other forms of financial resilience, exactly the forms of financial resilience that allowed us to buy Bulb when it was in special administration and earn taxpayers £1.5 billion through that transaction. It is very illustrative of how Ofgem's assessment of where we should be going is out of kilter with our own ability to come in and bail out customers at the time that it is really needed. That is what we are challenging.

I have a couple of pushbacks on Chris's points. The first is that Ofgem—rightly, in my view—has put in place very strict restrictions on how much we can all hold in terms of customer credit balances. Again, we are fully compliant with that. Any notion that there is free cash and we are using customers as a bank may have possibly been the case for some companies in the past, but it certainly was not for us. If it was, Ofgem's rules have killed that.

When it comes to the cost of supplier failures, Ofgem has put in—again, to its credit—new rules that mean that, when a company goes bust, a network company can effectively, on behalf of customers, seek to recover the cost of the company failure through the insolvency process. The situation we were in during the energy crisis is not where we should have been, but we are in a very different regulatory world right now where lots



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of sensible things have been introduced. We very strongly believe that an over-egging of Ofgem's view on capital adequacy is not in the interest of customers and will not help us get to net zero.

Q344 **Chair:** I have a couple of colleagues who want to follow up with you, but I asked you whether you agreed that customers should be told who has and has not met a financial resilience test. Do you agree with that? That was one of the points Chris made.

Rachel Fletcher: It is a matter for Ofgem, but we have made our decision as a company.

Chair: I get the message.

Q345 **Luke Murphy:** I wanted to give David an opportunity to respond. It was obviously reported in *The Guardian* that, in your annual accounts, it states that there is a material uncertainty that casts significant doubt on the group's and company's ability to continue as a going concern with regard to the fiscal sustainability rules. Just for the record, that is out there, so I will give you an opportunity to respond.

I had a very quick question for Rachel: were you referring to price controls on the energy network regulation when you were talking about Ofgem?

Rachel Fletcher: Primarily, yes.

Q346 **Luke Murphy:** Are you suggesting that it is making excessive profits under that price control?

Rachel Fletcher: We are increasing the cost of networks by fivefold what we have typically paid for network investment. That framework is not working in the interest of customers.

Q347 **Luke Murphy:** Very quickly, just to Chris O'Shea, I understand from having a look that the reason why you might not know whether you charge to have a gas meter capped is that you still charge the standing charge, even after a gas meter is capped. I just wonder whether you thought that was fair. But I will come to come to David first.

David Buttress: It is important to not conflate two things here. There are the capital adequacy rules and there is the financial resilience of a company. OVO is a fully capitalised, resilient financial business that is very well hedged. If you go back to the things that Chris was alluding to around the failures in the energy crisis, that was because companies were poorly hedged. That is certainly not the case with OVO. We are a well-hedged business and fully financially resilient.

As we recently said publicly, we are in a transitional plan with Ofgem. We are working closely with Ofgem to meet the capital adequacy requirements. It is important to separate those two things. OVO is a very financially resilient business, on a transitional path to meet the capital



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adequacy rules. That is why we said that in our annual report, as you referred to. That is important to say.

We would welcome the ability to hedge for longer, because in the energy sector you can hedge only three months ahead. One of the policy things we could think about is whether you can hedge further in the future, because we believe that would help resilience for the sector. I would also like to add that in.

Q348 Luke Murphy: And on the standing charge?

Chris O'Shea: That is news to me. As I said to the Committee, I will find out and write to you. If we have taken out a gas meter, it is not right that we charge for that gas meter. However, this goes to the point of us looking for the standing charge to be abolished. If we are charged by the network company for a gas connection to go into a property, then we have no means of recovering that cost. It would be right that you would still charge for that, but if you had abolished the standing charge then there would be no charge. That is one of the reasons we think the standing charge in itself is unfair.

Q349 Luke Murphy: Am I right in thinking that, if you discover that you are charging for a gas meter, it is capped?

Chris O'Shea: If we have capped a gas meter and there is a charge related to having a gas meter, that is not right. If there is a charge related to a gas connection that comes from the network companies, that is charged to us as a retailer for that property. We have no other way of recovering that cost. I would not feel as strongly about that. If you were to abolish the standing charge, you would smooth all of those costs over the unit rate. If people were not using anything, they would not pay anything. That is why we think the standing charge is unfair and should be abolished.

Q350 Ms Billington: Chris, I was just going to follow up on your point about comparing energy companies to banks. Is there an argument for Ofgem to have some kind of executive accountability powers, similar to financial services regulators? At the moment, it cannot fine individuals. It can only fine companies when things go wrong.

Chris O'Shea: There is an argument for us to have far better regulation. I feel very responsible for everything that we do as a company. If I get it wrong—as I say, in the past, I have given up a bonus and my bonus has been changed—there are implications for me personally and I think there should be for all of us.

We are regulated by the FCA, the PRA and the NSTA. We have a lot of regulators in central Government. We have six or seven different regulators. We see that. I am actually subject to the FCA's senior managers regime and the Prudential Regulation Authority's regime. Ofgem getting those powers would make no difference to me personally.



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We have to ask, "Do they work well in financial services?" If they do, I am all for having a fit and proper person test.

Q351 **Ms Billington:** It would apply to everybody in the energy sector who is a chief executive.

Chris O'Shea: Anything that means we feel more accountable, that means we are held more accountable, that professionalises our sector and that requires us to have properly capitalise companies that are run by fit and proper people who do the right thing for consumers has to be applauded. I cannot comment specifically on financial services.

Chair: We will make this set of questions the last one.

Q352 **Claire Young:** I am going to switch focus to business customers. I would like to start with Chris Norbury. Do you pursue businesses with debt collectors or through the courts when they have unresolved complaints with the ombudsman?

Chris Norbury: We do not. We should not pursue businesses where they have unresolved complaints. If there are examples where we have got it wrong, please do write to me and let me know.

Q353 **Claire Young:** We do have some evidence. Generally, does any of the companies pursue businesses where that is happening? No, okay.

Stepping back from that specific question, what are the differences between supplying businesses and supplying consumers?

Andrew Ward: There is a fundamental difference. When a business is looking for a tariff or a contract, it will typically look for an independent third party to speak to the energy company about the contract and the price. That independent will typically speak to a number of energy companies to guarantee the best price for that end company. The initial engagement with us as suppliers is very different from a normal domestic household, where we interact directly. That difference is fundamental.

There is then potentially a different buying pattern for the energy that we can offer that company as well. It depends on the tenure of the contract that it is offering; it depends on how it is going to use that energy as well. Again, that is something that can differ for a business. There are some fundamental differences at the very beginning before we even start to get into the relationship, once we start billing a company and speaking to it.

Simone Rossi: The third-party risk tends to be different. Depending on the type of business, there are activities that are more liable to failure. As a supplier, we need to consider that. It used to be that the residential market was very low risk. That is no longer the case for the reasons that we have said. There still remain parts of the business market where the credit risk is higher. That is a big difference.



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Chris O'Shea: There are two things that are different. First, there is no price cap, so it is a competitive market. Secondly, as Andrew mentioned, there are a lot of third-party intermediaries and brokers. That is one of the areas where we think Ofgem's powers could be expanded. We think brokers should be regulated. They are not regulated at the moment. We think they should be properly regulated.

Chris Norbury: On the point about brokers, we have been vocal for many years about brokers, TPIs and energy consultants being properly regulated. We have our own voluntary code of conduct, which we expect them to comply with. We will not work with TPIs that do not comply with that standard of conduct. That is important.

The point about credit risk in the small business market has already been made. We are serving everything from a small factory operating 24 hours a day, seven days a week through to a hospitality business and everything in between. The type of energy needs, the way you are procuring energy in the market and the credit risk that they bear is very diverse.

Rachel Fletcher: We do not work with brokers, which might explain why we have a very small non-domestic business. We fully agree that it is the wild west out there. It needs regulating. That is why we have decided not to work with them at all.

David Buttress: We have a consumer-focused business. We do not have a B2B element to it. I have nothing to add.

Q354 **Claire Young:** For those of you who have a business element, would you say that the one thing you would do to help businesses with energy issues is to regulate the market for brokers? Is there something else you would suggest, if you were going to suggest one thing to the Secretary of State to support businesses?

Chris Norbury: In addition to brokers, there is the point about TPIs. We touched on this earlier in the residential market around change of tenancy. Change of tenancy for small businesses is an even bigger issue than it is for residential customers. The average notification time is over 120 days for a commercially let premises.

First, we would like to see the mandation of smart meters for commercially tenanted properties. Secondly, we would like there to be an obligation on commercial landlords to inform the energy supplier of a change of tenancy before they conclude a new tenancy agreement. That would make a big difference.

An example of where that would make a big difference to customers as well as us is when we do not know who the customer is and we cannot assess credit risk. That is when you see a customer on a deemed contract. A deemed contract, because of the risk that is borne, is more expensive than a fixed contract or a contracted product. If you were to



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change the arrangements for change of tenancy, you would get fewer small business customers on deemed rates, and therefore you would get small business customers paying less.

Chris O'Shea: I have offered this observation in the past. This is not a recommendation, but I saw a really interesting article by Dieter Helm who is at the University of Oxford. He was talking about when we had the old Central Electricity Generating Board. The policy there was that business customers paid the marginal cost of generation and consumers paid all the costs of the infrastructure.

I am not recommending that that is the case, but the point he was making was that that was based on a policy decision that we wanted to attract businesses. The more businesses we had in the UK, the more competitive they were, the better wages they paid, the better off people were, the more growth we had and the more they could afford to pay the energy bills. I am not suggesting that we should go there, but I thought it was a very interesting point that has some merit.

I wonder about what we should do for business customers. Electricity prices are 30% higher than in the rest of Europe. The UK is quickly losing its competitiveness, which is really bad for the economy. Rather than tinker, we have to think about something fundamentally different. It cannot be incremental change; it has to be transformational change. I thought that article by Dieter Helm was really interesting. There might be other people who have similarly transformational thinking that will help us understand how we can help energy-intensive businesses because otherwise we are going to lose them in the UK.

Chair: I was hopeful. For a minute, I thought you were going to give us something there, Chris.

Chris O'Shea: No. That might be misrepresented as a recommendation. It is not a recommendation; it is just an observation.

Simone Rossi: I do not have any ideas to add to what my esteemed colleagues have already shared.

Andrew Ward: I have nothing extra to add.

Rachel Fletcher: Small businesses are paying already to subsidise the energy bills of energy-intensive users. That amount is about to increase. We need to remember that.

In the spirit of things for the Secretary of State, I would suggest access to flexibility markets for consumer flex. A lot of these businesses are able to flex when and how they use power, but the value that they can earn from that and therefore the impact that it can have on their overall bills is limited by the fact that that really valuable resource to the energy system does not have good access to market due to a whole raft of incredibly complicated market rules.



We talk about this quite often in the context of domestic customers. Chris has been talking about the savings that people can make. Even if you do not have a heat pump, you can make savings from being flexible on energy use. The same applies, not to all but to some businesses, many of whose energy use is not dissimilar to a householder's energy use.

If we are thinking about industrial competitiveness and energy bills, we should be thinking carefully about making sure customers have access to those markets and can earn money from them.

Q355 Claire Young: I have a quick follow-up on a couple of points. First, would anyone object to businesses being given a 14-day cooling-off period after signing a new contract? No. What about extending the eligibility for going to the ombudsman? At the moment, it is restricted to quite a small section of the commercial sector.

Andrew Ward: There is a slightly different context to that cooling-off period. As I alluded to, the end business is having a very detailed conversation with a third party that is analysing all the different tariffs. In a domestic context, quite often it is a direct relationship, which requires a cooling-off period. If we are going to examine a cooling-off period for businesses, we need to examine the role that third parties play as well. That would imply that that relationship is not robust.

The ombudsman—we touched on this before—plays a really important role. It is up to us, though, as energy companies, to avoid the ombudsman needing to play a part in our engagement with customers. The reality is that quite often it is needed because fundamentally the end customer, whether it be a business customer or domestic customer, wants impartiality and a second view. As a principle, I have no major objections to somebody going to the ombudsman and trying to work through a timeline. We just have to recognise why we need to do it.

Chris Norbury: I wanted to make a point about third-party intermediaries. To your cooling-off period question and your ombudsman question, we support it but not where there is a TPI engaged. That can put a middleman between the supplier and the customer, and make some of those timelines harder to manage. That would be the one caveat.

Chair: I am just double-checking that nobody has any final questions. We sometimes have final, final and final questions, but not this time.

Can I thank our panel for an exhaustive, if not exhausting, session and for answering our questions mostly very fully? There is a lot there that we would really be grateful if you could follow up in writing. One thing that struck me was what the regulator's role should look like. There is a lot more detail that we could have carried on discussing for possibly many hours. If you could, write to us about that and other things. The clerks will be in touch with you with additional questions as well.

It remains for me to thank you all very much and to end the session.