



Industry and Regulators Committee

Corrected oral evidence: Ofgem and net zero

Tuesday 13 July 2021

10.15 am

Watch the meeting

Members present: Lord Hollick (Chair), Lord Allen of Kensington, Lord Blackwell, Baroness Bowles of Berkhamsted, Lord Burns, Lord Curry of Kirkharle, Baroness Donaghy, Lord Eatwell, Lord Grade of Yarmouth, Baroness Noakes, Lord Reay, Lord Sharkey.

Evidence Session No. 3

Virtual Proceeding

Questions 23 - 40

Witnesses

I: Dhara Vyas, Head of Future Energy Services, Citizens Advice; Matt Copeland, Head of Policy and Public Affairs, National Energy Action; Lynne Gallagher, Chief Executive Officer, Energy Consumers Australia.

II: Andrew Large, Chair, Energy Intensive Users Group.

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Examination of witnesses

Dhara Vyas, Matt Copeland and Lynne Gallagher.

Q23 **The Chair:** Good morning. Welcome to the Industry and Regulators Committee and our inquiry into the transition to net zero and the role of the regulator Ofgem in that transition. Today we will hear from consumers. First, we will hear from individual consumers. Then, in a second session, we will hear from industrial consumers.

I would very much like to welcome three witnesses today, starting with Lynne Gallagher, who is joining us from Australia, where it is early in the evening. I am delighted to meet you, Lynne. Lynne is the chief executive officer of Energy Consumers Australia, which is seeking to win an influential voice in national energy matters.

Also joining us is Dhara Vyas, head of future energy services at Citizens Advice, where she leads a team working on new and emerging energy supply and service markets. Its aim is to protect and promote the interests of current and future customers.

Finally, Matt Copeland is head of policy and public affairs at National Energy Action, where his role has involved working to ensure that political, regulatory and market landscapes are favourable for fuel-poor households. All three have considerable knowledge, albeit in different corners of the world, of the concerns, aspirations and hopes of consumers.

I will start by asking Lynne a question. We will then go on to the other witnesses. What particular concerns are being raised by consumers? In the UK, according to my focus groups, which are made up mainly of taxi drivers, there has been great concern about the steep rises in energy prices and the financial commitment—the amount of money that people will have to shell out in order to make themselves ready for this transition. Lynn, can we hear from you first?

Lynne Gallagher: Thank you very much. We did some research into this a year ago. Household and small business consumers are telling us that they expect the future of energy to be clean and expect to play a role in that transition, but they also expect it to be affordable. The challenges that we are facing and the issues we are engaging on in Australia, which are very similar to those in the UK, are about how to have an affordable transition to a lower-emissions energy system. That involves changing social and business practices. Consumers need to be willing to buy into that. It is not something that you can impose on them.

The Chair: Thank you. Dhara, what are the consumers saying to you?

Dhara Vyas: To start with, the committee will be aware that the energy market has undergone a really rapid transformation in the last decade. The commitment to reach net zero by 2050 is a real catalyst to do more and to do it a bit faster. The impact on consumers will be considerable. It is really important to consider what that impact is and how to make sure that we pay for it fairly. It is such a huge question, so I will talk a little

about the impact on people's homes and then talk about the cost question that you raised.

When it comes to people being concerned about climate change and net zero, our research, and various other pieces of research by government and others, has found that the vast majority of people—generally, around 80%-odd of UK adults—support the goal of reaching net zero, but they do not necessarily know what the changes will mean for homes and their living situation. We did some research just before the pandemic where we found out that seven out of 10 people were sort of aware of net zero and the target, but less than 40% of them thought that they would need to change the way they heat their home.

When you talk about climate change and net zero, people often think about plastic bags. They do not necessarily think, "I'll have to change my boiler to something else", or, "Perhaps I could make my home a bit less leaky". The CCC has predicted that 90% of homes will need to install low-carbon heating systems, so there is a real knowledge gap. That is what I am trying to set out.

We know that people have four top concerns about energy: the cost of energy; how you make changes to homes; how you make sure that people have the help and support that they need; and how you make sure that people know where to go if something goes wrong. We are the official watchdog for consumers. I am sorry; I should have introduced myself and said that. Citizens Advice is the statutory advocate for energy consumers. We work across the market, in the retail networks and on energy in people's homes. We know that public engagement is really the first step when it comes to net zero. We think that net zero will be possible only if people can work out how to make changes that are right for their homes. If they cannot afford to and have a bad experience, we will not get there. You have to meet people where they are.

Focus groups have told us that people want trusted, unbiased sources of information and things that are tailored to their homes and lifestyles. People want to be able to find reputable suppliers and installers—trustworthy companies—so that they know that they are not being scammed or mis-sold products, and they want protection if things go wrong. If things do not go to plan, they need to be fixed.

Just the other day, we published some information about the sorts of things people are looking for advice on from our website. As you would imagine with Citizens Advice over the pandemic, page views on our website have been higher than ever before. They have changed as the pandemic has progressed. In the beginning, there was a lot of searching for coronavirus. Then there was lots of concern about furlough and redundancy. We are seeing more searches for help with employment advice again. In the last quarter, we have noticed an awful lot of increase in views of our scams pages. When we are thinking about changes in homes with energy, scams are something we should be thinking about, too.

That is a broad overview of changes in homes. I am sure that we will talk more about that issue this morning.

The question of cost is a huge one, isn't it? So many people are talking about it. There is so much interest in how we are going to pay for the transition to net zero. We know that we have to think about how to do it fairly. A significant proportion of the costs associated with decarbonising the energy system are paid for through bills. Paying for policies like this through bills rather than taxes is quite rightly agreed to be regressive. It results in a greater proportion of spend being met by those in lower-income households. It is really important that the Treasury's review on net zero gives really detailed consideration to the possibility of moving some of these costs into taxes and making it fairer.

I will close by saying this: it is really important to remember that a third of the population has less than £600 in savings and that one person in 11 has no savings at all. The outcomes from the Treasury's review on net zero will be crucial here. We need to see a suite of options. Ultimately, it is a decision for government.

The Chair: Thank you. Matt?

Matt Copeland: In a word, for the consumers we represent and work with, the main concern is affordability. Dhara mentioned that this will cost a lot of money and that we have to look at fairness, but it is also worth setting it in the context of affordability right now. Dhara gave a stat about how many people support net zero. Absolutely, lots of people support net zero, but it is also worth saying that 40% of the public are worried about paying their energy bill at the moment. That is from BEIS' own statistics in May. Eighty-two per cent of households are worried about steep increases in energy prices in the future. I think that your experiences with taxi drivers are broadly representative of the public.

That will be made worse in the near future. In August, it is very likely that we will have an increase in energy prices. That will feed through to consumers, because the wholesale price is increasing; it looks like it will be £100 on the average energy bill. We also have the end of various government support schemes; it looks like there will be reductions in universal credit and the furlough scheme.

We will therefore have increased energy prices and reduced incomes. That means that even more than the 4 million fuel-poor households that we have across the UK at the moment will struggle to pay their energy bills in the near term. We have some real near-term constraints that we need to deal with, but we also need to look at the long term and net zero. We are not building on a basis that energy is currently affordable. We are building on a basis that, actually, it is really tough for lots of people to afford to keep warm in the winter. How do we make that more sustainable in the future?

We need to get a handle on the costs and to make sure that the fuel-poor do not pay more towards their energy as a result of net zero. But we also

need to look at the benefits of net zero and what that can do for fuel-poor households. Net zero is not just a cost; it can result in energy savings as well. We need to look at things like helping people to reduce their heating demands by making their homes more energy efficient, or thermally efficient, and how we can do that fairly, prioritising the poorest households. Having that fabric-first approach can make net zero fairer and more affordable.

Those sorts of considerations really need to be made. It is not just about ensuring that the spread of the costs is affordable. The spread of the benefits can also help to mitigate any increase in costs.

Q24 **Lord Reay:** Good morning, Dhara and Matt. Good evening, Lynne. My question is about the UK regulator and its relationship with the consumer. How effectively are the views of consumers reflected in Ofgem's work? To what extent does this conflict with the transition to net zero? Does Ofgem balance these considerations satisfactorily?

Matt Copeland: It is worth starting on a positive note. In the last five to 10 years, Ofgem has done quite a lot of work to build more views of consumers into its work as a regulator. The most high-profile of these measures is in its regulation of monopolies. In its regulation of energy networks, for example, it has required the networks, when they are forming their business plans—the business plans set out how much they can charge their customers, the price control and what they can do with that money—to go through quite rigorous engagement with their customers to ensure that their plans are reflective of what customers want them to do. That helps Ofgem to get a feeling of what households want those monopolies to do with their money. Ofgem gets that information from customers through the business plans and, because of that, is able to make better decisions about how it regulates those companies. That is one really good thing that it does.

A second really good thing is that Ofgem has upped its engagement with consumer groups and charities that represent consumers—groups like Citizens Advice and NEA, but many others as well. That more regular engagement has been kick-started by the pandemic and has been a really useful mechanism to enable us to feed our consumers' views and all the research that we do on that into Ofgem's work more frequently and on an ongoing basis.

It is worth saying that the board of Ofgem is really keen to hear real people's views to help it to shape its own on how to take Ofgem forward. For example, a couple of years ago NEA gave site visits to the Ofgem board. That really helped to shape some of its views on topics.

There is a lot of work going on, and it is clear that Ofgem wants to build consumer views into its work. However, there are a few things that it could do better and a few additional things that it could do. We appreciate that Ofgem wants consumers' views and tries to get them through us, Citizens Advice and others, but that is still second hand, so we would like to see that Ofgem does more work directly with consumers

through polling and focus groups. It does surveys, which is really good, but it should do more of that sort of thing to get views directly from consumers on some of the big issues that are coming up.

I have currently pointed out that there is a very stark asymmetry in the level of engagement in consultation processes, for example, from consumer groups and consumers as compared with businesses. I hope that NEA, Citizens Advice and others do a really good job of representing households, but for every response that we are able to put in there are probably multiple responses from businesses. The weight of responses is not equal, which could have an effect on the whole process.

We cannot always be in the room, either. Even though Citizens Advice is fast to react and to advocate and has lots of people working across this, doing a fantastic job, and even though we try to cover as much as possible, I am sure that there are conversations where there is no consumer advocate in the room and the consumer voice is not being heard. Ofgem could do more not just to engage us, Citizens Advice and others, but to speak directly to households to get their views.

I hope that that answers your question. I think that there was a second part. If I have not answered that, please let me know.

Dhara Vyas: This is a really timely inquiry. I think that Ofgem has a crucial role to play in the transition to net zero. It is important to consider this beyond decarbonising power itself, because the sector will be needed to provide a platform for decarbonising transport and heat. Decisions that Ofgem makes have the potential to help significantly or, if they are made badly, to impede the transition to net zero and to impact on its cost, so Ofgem has a really crucial role here.

I agree with Matt that taking account of consumer views in these decisions is vital. We have to ensure that policies are fair. They need to be legitimate. They also need to be effective at prompting behaviour change. It is really important to hear consumers.

Reflecting on our experience, I do think that Ofgem takes account of consumer views in a number of ways. Perhaps it is not communicating that well enough, but in our experience it has improved a lot of this understanding over time. It conducts quite a lot of its own quantitative and qualitative research. We regularly commission research with it. When we have a joint interest in an idea, it draws on our insight and research programme, because we are the statutory consumer advocate. We know that it engages with other charities and consumer groups, including NEA obviously.

The interesting things that Ofgem has tried recently include trialling policies directly and co-creating methods with consumers, using a consumer panel. Matt touched on networks. Ofgem has required the network companies to set up consumer engagement groups to assess how companies take account of consumer views.

Those approaches are the sorts of things that we need, but they need to be expanded as we think about developing policies to decarbonise energy. Where Ofgem does not have powers, it should perhaps be enabled to do that in order to try things. It is good to test things in this market.

Ofgem is also building its own data capabilities to help market participants to share and to benefit from things like digitalisation. Those will all be really important to understanding and delivering good consumer outcomes.

I think that you also asked a question about changes to Ofgem's remit. Am I right?

Lord Reay: Yes.

Dhara Vyas: It is quite important to think about this in two parts. The first relates to Ofgem on its own. The second is about how Ofgem might work with other regulators.

I know it has been suggested that Ofgem could have a clearer statutory obligation to deliver net zero. That could really help to focus its work, alongside the primary aim that it already has to protect the interests of current and future consumers. Citizens Advice is quite open-minded about this. We know that the introduction of a strategic policy statement was committed to a few years ago. I do not think that that has been published.

The strategic policy statement would provide a means for government to give Ofgem greater guidance on how to see its role, so it would be a really useful thing to consider. Ofgem is unelected, obviously. Major decisions on the transition must rightly sit with Ministers and government to ensure that we have democratic accountability. But decisions have distributional impacts, so it is important to understand how people will be affected and what mitigations and mitigating measures Ofgem could put in place.

The remit is quite narrow. We expect a wide number of organisations to be involved in the transition to net zero. We have been advocating for Ofgem to have its remit expanded to cover heat networks. Forgive me, but I will tell you a bit about heat networks, unless that is something you already know about. Heat networks are quite a crucial part of government's plan to reach net zero.

The Chair: In the interests of time, you do not need to go through that with us.

Dhara Vyas: Okay, I will not explain them. Basically, I think that Ofgem's powers should be expanded to cover heat networks. They are crucial if we are to get to net zero.

The other point is about Ofgem and other regulators. Net zero means lots of different technology and different things happening in people's homes.

The boundaries between markets will be harder for people to navigate. As well as managing its own remit, Ofgem is likely to need to develop close working relationships with other regulators. That is the key point that it is really important to think about when we are talking about net zero.

Q25 Lord Allen of Kensington: Good morning, and good evening. I would like to bring us back to the discussion on vulnerable customers. Do you think that the price cap is truly working for vulnerable customers, or is it just a tick-box exercise to be seen to be reducing bills? Should there be more focus on vulnerable customers? Who should take the lead on that?

Secondly, what specific risks are there that vulnerable customers will suffer disproportionately in the move to net zero? Again, who should be responsible for mitigating that? What specific actions need to be taken? You may have seen the report in the *Times* that the Government could provide an annual compensation payment to consumers that would benefit vulnerable customers.

Dhara touched on the third part of the question, which is about practical support. There is a lot of confusion out there about what that could actually mean for people in homes. We have heard from a number of people that a number of vulnerable customers do not live in their own homes but rent, either from councils or from private landlords. How does that get managed? It is a big issue, because they do not have the control to make some of those decisions. Do we need to fund that? Dhara, do you want to kick off on that?

Dhara Vyas: Yes, of course. It is a huge question; you have raised a number of huge questions. The price cap is time-limited by legislation. It has to expire no later than December 2023, I think. It is couched in long-standing problems of consumer disengagement in the energy sector. The essential nature of energy means that we need to have some form of protection for vulnerable consumers. That will be needed after the price cap ends. It could take a number of different forms. It could take the form of a social tariff. It could be other, targeted support, as you mentioned—rebates or a narrower price cap, perhaps, that focuses on consumers with specific vulnerable characteristics. Only a narrower price cap would fall under Ofgem’s remit, so, again, we look to government to provide the leadership and decision-making on this.

On your question about vulnerable consumers and the transition to net zero, when it comes to decarbonising heat, I absolutely agree with you. We did a couple of years’ work on a big research programme called Future Energy Consumers. One of the big findings was that there are a couple of groups of people who are least able to engage with today’s energy market. Those are people who live in the private rented sector and people who are digitally excluded. We know that it is really important that, as we make decisions now, we ensure that those groups are able to engage and that the people who lose out in today’s market do not lose out in tomorrow’s market, too.

There are a number of ways in which you can do that. The heat and buildings strategy is a key decision-making document—or, at least, a

strategy and package—for decarbonisation across Great Britain. We are really looking to the Government to set out some suggestions for how they intend to do that.

Lord Allen of Kensington: Matt, would you like to add anything?

Matt Copeland: I will start with the price cap. You asked whether it is just a tick-box exercise. I do not think it is just a tick-box exercise. I think it has a purpose. That is to limit the profits that can be made on energy. I think it broadly achieves that. What it does not achieve is making energy affordable for all consumers, but I do not think that is its purpose. I do not think that is achievable with a market-wide price cap.

As regards what happens after the price cap ends, I agree with Dhara that there should be something that is more focused on vulnerable customers. That is what Ofgem is able to achieve within its remit, and that is what needs to be looked at as a priority. That will take quite a long time to get through the process. It is really creeping up on us now, so it needs to be one of Ofgem's priorities.

I think that there needs to be a greater emphasis on the costs for vulnerable customers, both in the short term and in the long term, as I said before. This winter, Ofgem really needs to do some more work on trying to make energy more affordable for the most financially vulnerable energy customers, given reductions in incomes and increases in energy prices.

There are a number of things that Ofgem could do. It could help to make it easier to identify financially vulnerable customers. It could direct energy companies to do that in certain ways. It could work with energy companies not just to provide more forbearance on energy debt by delaying the time by which people are required to pay back debt, but to give better support for debt by signposting to debt services and income maximisation, for example. It could also do broader things, like driving smart meter rollout for the most vulnerable households with prepayment customers, where there can be a significant financial benefit to having a smart meter. That can really help to clear debts.

You asked about specific support for vulnerable customers in the transition. Up front, the financially vulnerable customers and fuel poor should not pay more. Grants to cover the costs of the energy efficiency measures that they will need to reach net zero and the heating technologies to which they will need to change need to cover the whole costs of those things. If you cannot afford to pay your energy bill, you cannot afford to pay up front the capital costs of those measures. In certain circumstances, your cost per kilowatt hour might also increase as a result of changing from a gas boiler, for example, to a heat pump at the moment, so there might be some requirement for ongoing cost support to make sure that the lowest-income households do not end up paying more per heat unit to keep themselves warm over winter.

You mentioned the report in the *Times*. There is the potential to move levies from electricity to gas, which would make heating through gas more expensive. That would be really bad news for the lowest-income households using gas and would probably lead to those households rationing their energy more and being colder. The other option is to have extra taxes on gas.

The idea that was outlined in the *Times* article is something that we would support, but the devil will be in the detail. It would need to be something that was accessible to all households so that if you did not have a bank account, for example, that could not rule you out of it. It would also need to be something that was not paid retrospectively—something that you got before the event of prices increasing.

Lastly, you asked about practical support. This is really important. At the moment, we have a real skills gap in the provision of really good advice to help people to decarbonise their homes. I know for a fact that there are lots of advisers out there who are really good at this. But given the scale of the challenge of everyone needing to decarbonise their homes, we definitely have a skills shortfall in this country when it comes to advice through third parties and charities, and when it comes to installers knowing how to help people to make the best decisions to decarbonise their homes and to maintain affordability of energy. That is really needed, especially for the poorest, most vulnerable households, which will need hand-holding through this process. Probably the biggest, most practical thing for us at NEA is to make sure that we get that advice right.

Lord Allen of Kensington: Lynne, I am conscious that one of my colleagues will ask you to compare and contrast lessons learned between the UK and Australia. Do you want to add anything specifically on this subject of vulnerable customers?

Lynne Gallagher: It is very important. Thank you for the question. I agree with a lot of what I have heard. The context of it is very different in Australia, in the sense that there are a lot more policy instruments that you use. There is a lot more awareness of fuel poverty in the UK. In Australia, we do not even make the link between the quality of housing stock and energy costs yet. That has only just started.

I sympathise with what Matt has just said. Often what you hear in Australia is that there is a smart energy future coming. The problem, as you have highlighted, is that not everybody has the capability and breadth of opportunity. We need to look at those measures. I guess what I am hearing is how much that can be led by Ofgem and how much it has to be led from government, or from some other organisation or task force that has been tasked by government, to bring all these things together.

Q26 **Lord Sharkey:** Can I press you on the issue of the cost of transition to net zero? Ofgem's last survey shows that most consumers think that they are already doing enough to tackle the impact of climate change, and that they have no grasp of the costs and difficulties involved in major change. We have heard already that having consumers shoulder the costs

needed for the transition would be a very regressive form of taxation. What is your view? Who should fund the radical changes needed? Should the burden fall on bill payers or taxpayers? Matt, would you like to go first?

Matt Copeland: I think it is worth looking at what we have done for now. Considering decarbonising electricity in particular, the Government's decisions up to now have largely been to place the cost of that on our electricity bills. Generally, that is quite a regressive practice, as you have heard. You cannot just look at the cost side; you have to look at who benefits from it. The social obligations are in there. The warm home discount and the energy company obligation, for example, are two on the benefits side and are quite progressive policies. They target the poorest households, providing £140 rebate or access to energy efficiency grants if you meet certain income criteria. Those two policies in particular are much more progressive than some others.

There are some policies that are levied on bills—for example, the renewables obligation and feed-in tariffs, which were not really aimed at the lowest-income households—which are much more regressive. We need to be really careful in the future, when creating policies that will benefit not just low-income households, that the poorest people are not disproportionate sponsors of those policies, and to make them fair. For many of the current policies on bills—for example, the two that I spoke about: the renewables obligation and feed-in tariffs—we need to consider whether they would be better placed in general taxation, although any aid supports the expansion of eco and the warm home discount on bills, as we have seen.

I would like to note one future policy that is coming into fruition at the moment and will be coming through the Lords soon, which is the green gas levy. This levy will be placed on bills in order to fund green gas in the system and will go on to the standing charge of a bill. It will be charged at exactly the same amount per day whether you are a fuel-poor household or a big business. It is on a per meter basis. That way of charging for it and funding the transition is particularly unfair. That way of doing things, that way of paying for it, particularly needs to be addressed as we go forward.

I do not have all the answers to your question. It is really complex to think about the distributional impacts of those sorts of things, and you need to have really good modelling to do it. One criticism of government is that it has not publicly shown that modelling for quite a long time. Government used to publish the impact on bills of all the policy levies on it. That no longer happens. There is a lack of transparency as to the impact on households of the funding and transition, and we need to get back to that transparency.

We need also government to do better distributional impact assessments of the sorts of policies that it is putting forward—for example, considering the impact on different income deciles but also different types of consumer; whether you use a prepayment meter; whether you live in the

private rented or social rented sector; or whether you live in a rural situation, for example. All these things need to be considered, as they can make you very vulnerable to fuel poverty and other issues.

It is very complex. I can tell you for certain that fuel-poorer and low-income households should not disproportionately fund the transition. For the vast majority of items the burden should fall on taxpayers.

I will leave you with one thing that I have said before. The order in which you do things is also really important. You have to consider the benefits of what you are spending as well as the costs. For example, investing in energy-efficiency measures, making our homes more thermally efficient up front, can really increase the benefits, especially when that is for fuel-poor households. Making sure that we prioritise the benefits for the poorest households first, as well as mitigating some of the cost elements of them and pairing that up, is really important to achieve a fair transition.

Lord Sharkey: Thank you, Matt. Dhara, do you have anything to add to that?

Dhara Vyas: No. I would support a lot of what Matt said. I have already mentioned the Treasury's net-zero review. That is the next key step we are waiting for from government.

Lord Sharkey: Lynne, would you like to comment?

Lynne Gallagher: I would just add one thing. The biggest costs are ahead of us in Australia in the sense that 60% or 70% of our generation is still fossil-fuel generation. We are facing a huge wave of investment in new generation, new transmission, new interconnection between our regions. There is a considerable uncertainty about the timing of the benefits, but the costs come up front.

In a slightly different context but to reinforce what Matt said, where consumers cannot mitigate the costs or where the benefits are not flowing through, where there is an up-front cost of the transition I think it ends up being regressive unless you have taxpayers paying for those costs.

Lord Sharkey: Thank you very much.

Q27 **Lord Blackwell:** I would like to come back to the issue of Ofgem's remit that Dhara mentioned earlier. Matt, you said that you were keen for Ofgem to do a better job of listening to and doing what customers want it to do, but that generally means lower prices, as you have said. On the other side of the coin, we have discussions about giving it the strategic objective of delivering net zero. It is difficult to understand how well, within its current remit, it can make those trade-offs, which are policy trade-offs. The question is whether the remit needs to be changed to give it more power.

At the moment, its primary mode of operating, as I understand it, is

RIIO—revenue based on incentives, innovation and outputs. That is a fairly narrow lever. Does it need a wider remit, or should we go the other way and have more policy set by government, with Ofgem just becoming a technical and economic compliance regulator? Matt, do you want to start? I would be interested, Lynne, in whether there are differences in the relationship between government and the regulator in Australia that we should learn from.

Matt Copeland: In some instances, there needs to be a broader remit for Ofgem. I agree with what Dhara said particularly about heat networks, but I would go further than that and say that I would like Ofgem to regulate the heat. At the moment, 6% of households do not use electricity or gas to heat their homes, so they do not get the same level of consumer protection as others. That number will grow as more are involved in district heating schemes, but other technologies could come along to heat our homes. That is one area where there needs to be enhanced remit.

I will not take a view on whether it is required to have a net-zero remit, because that is not my specialty and my knowledge base. But if its remit is expanded to have that greater net-zero focus, that cannot come at the cost of its current obligations to protect vulnerable consumers in the energy market. That must be protected throughout.

There are also a couple of other really important things on Ofgem's remit. First, regardless of whether it has this new remit or not, it will have to take a view on the future of the gas networks. It may take a view that the gas networks have an end date to them, for example. It must reflect on that and make sure that vulnerable customers who potentially cannot change away from using the gas network are protected from that decision, but it must also consider that gas networks do a lot of work to help their vulnerable customers at the moment—there is lots and lots of funding for that through the gas networks—and it must ensure that that funding is kept up through other sources as well.

There is another priority. From our experience engaging with both BEIS and Ofgem, there are many topics, many policy areas, covered by both BEIS and Ofgem, and there is a lack of clarity as to who takes the real ownership of those policy areas. There are three in particular. The role of energy networks is unclear. One is scheme design—the two schemes that I talked about earlier: ECO and the warm home discount. It is a joint responsibility. Thirdly, the price cap is a joint responsibility, too. Whatever enhanced or reduced remit that Ofgem has, making it really clear who takes ownership of those policy areas that are key to achieving this transition is incredibly important, because if no one has real ownership over them it is really hard to get them right.

There are also areas where we think Ofgem needs to work jointly with BEIS. BEIS promised, for example, an affordability review for energy this summer, and that review is to be a call for evidence. We think that BEIS needs to work with Ofgem so that that call for evidence is not just asking

more and more questions as to how to make energy affordable but coming up with a really credible plan to do so.

In summary, Ofgem's remit cannot stray away from vulnerable customers. That needs to remain a focus. We need to have better clarification about where things sit between it and BEIS, and there need to be areas that they work together on to get to some really strong, focused outcomes as well.

Lord Blackwell: Thanks. Lynne, is there a different relationship between the Government and the regulator in Australia on net-zero objectives?

Lynne Gallagher: I will try to be brief. Thank you for the question. I am more than happy to take a lot of these questions on and make a written response to the committee after I have had a chance to think of the cross-country comparisons.

In our case, we have a national electricity objective and a national gas objective, and that defines efficiency or the efficient investment in electricity and gas. A short-term energy security board has been created—it has been in place for two or three years—and its main role has been to look at whether the regulatory framework is fit for purpose for the transition to net zero.

The struggle for us in Australia has been that the focus is very much on the mechanisms, regulation, design and efficiency. The consumer outcomes that might go to consumer behaviour, social policy, housing policy and electrification of heating policy all sit awkwardly. The way we have done it in Australia is to say that that is outside the remit and that it will have to be dealt with in some other way. In fact, Energy Consumers Australia is prosecuting the agenda from the perspective of saying that all those things come together in the household and in the small business, and in terms of the affordability and the satisfaction consumers have with whether government and the transition are delivering for consumers.

So I guess we have had a very narrow remit in that sense. What we have been calling for here is an energy transition board or an energy transition commission that somehow gives equal weight to all those policy levers, not as an add-on or a trade-off but explicitly saying that we have to deliver an energy system in the future that is clean and affordable; and, in our case, because we still have to make the transition from coal and fossil fuel to renewables, security is one of the things that is top of mind for us. We need something that provides government with holistic advice across all those issues, and we have not found the way to do that yet.

Lord Sharkey: I am conscious of time. Both Lynne and Dhara mentioned the importance of heat networks. Could both of them send us a short note explaining the complexities of how those sit in the remit?

The Chair: That would indeed be very helpful.

Q28 **Baroness Bowles of Berkhamsted:** Good day, everybody. We have already slightly strayed into how other countries, including Australia, are

dealing with matters. Basically, I want to go a little further in what lessons can be learned from how consumer voices are represented in discussions in other countries. Obviously, Lynne can tell us more about Australia. What is also interesting—and you have already hinted at it—are the comparisons that you might begin to make following some of these discussions and whether in fact you have been looking elsewhere, including to the UK and other countries. I will come first to you on that, Lynne.

Lynne Gallagher: Thank you for the question. It has been fascinating listening to my UK colleagues. What is evident in Australia, because we have a federation, is how important it is to have a well-funded and well-resourced national consumer voice that can also work across our federation and in the jurisdictions, but which is firmly focused on consumer outcomes and is evidence-based and independent.

The big insight from what we have been able to do in the last five years is that instead of just engaging with what I might call supply chain issues—such as whether there should be more transmission and whether that is at efficient cost, and the equivalent process to your RIIO process, and whether all that is being managed well—we should actually touch on all the issues that go to the things that Dhara has talked about.

I read some of the earlier evidence. We are at the front here in Australia. Consumers, when faced with the highest prices for electricity in 50 years, are putting rooftop solar on their roof, putting batteries in their premise, and actually engaging with different business models for storage. All that is still seen as outside the electricity system or outside the energy system and is not integrated. That has been the power of having a consumer voice in setting the agenda in saying that there is a missing piece in the framework.

We look to models overseas. Consumer Scotland is an innovation that I have been interested in. In fact, our Western Australian Government have their own equivalent of that, or it is very like the advocate office in the US in a number of jurisdictions. Consumer NZ is another one. It ranges across not just energy but water and other utilities. I guess the common theme is where it is well-resourced, independent, evidence-based and can drive that from a consumer perspective.

As Dhara referred to earlier, the positive thing that has eventuated from the creation of ECA only five years ago is that we are now getting more collaboration. We have a very fragmented system. I have to work with a rule-making body, an enforcement body, a system operator, six states and two territory jurisdictions. We are trying to partner more on research and engaging policymakers earlier in the process, not once they have come up with an elegant solution to a technical problem but bringing the consumer perspective into the design of the solution before you even get to the end of it. That is a challenge for us in dealing with engineers and economists, and I am a mathematical economist: it is bringing the sociotechnical, economic and engineering things together. That is the power of what ECA has been able to do.

Baroness Bowles of Berkhamsted: Thank you. Dhara, do you want to add anything to that? Are you learning lessons from Australia? How are you fixed on looking at the technical side of things that Lynne has just mentioned?

Dhara Vyas: Yes, I absolutely am. We talk to Lynne and colleagues as often as possible. The time difference has an impact on that, but we do our best. There is an awful lot to learn, particularly on some of the technical things Lynne raised such as small-scale generation in people's homes as well as battery storage and local storage. We are at the beginning of thinking quite seriously as a country about local area energy planning.

The diverse housing stock in the UK has a big impact on this. My understanding from the work that we have done over the years with colleagues across the EU has been that often the UK leads the way on how we engage with consumers and the arrangements we have in place. There is a lot of learning from certain countries in the EU on, for example, heat networks and other low-carbon heat tech that we can consider and how it might suit our housing stock.

I am conscious of time, but the other thing I would mention is the UK Climate Assembly. There are various examples from around the world on this deliberative way of engaging with people, giving people the information and then asking for support in how government and decision-makers could lead us to net zero.

Baroness Bowles of Berkhamsted: You are saying that there is a role for the individual in their responses, for instance, with solar cells and so forth. Matt, do you need to add anything, or have we covered everything?

Matt Copeland: No. I completely agree with Dhara on climate assemblies. There are learnings from the local ones as well as the national ones. Lots of local authorities have done their own. If we can build that into our national policy framework too, that would be an excellent way to better engage with households.

Baroness Bowles of Berkhamsted: Thank you.

Q29 **Baroness Noakes:** Consumers potentially face a much more complex relationship with energy as we go forward, but they are often disengaged. If there is greater complexity, it does not seem intuitively likely that they will engage more. How likely is it that the energy market will change, effectively to take over some of the complexities that consumers would struggle with—for example, via energy as a service? What would it take to make that successful? Dhara, would you like to start with that?

Dhara Vyas: Yes, thank you. I am happy to. It is important to consider the three different things we will be asking most people to think about when we talk about energy in homes. We will be asking people to make homes more energy efficient, to consider installing low-carbon heat

technologies, and to engage with a whole plethora of smart homes energy technologies. That could range from meters, localised storage, solar panels if you have the space and ability, smart thermostats, and appliances that switch on and off in order to use energy when it is cheapest. There are lots of different things, so this is potentially quite complex.

It is really important to recognise that sectoral regulations do not currently cover a lot of third-party intermediaries in the energy space. For example, switching sites are not regulated. Whether changes are driven by policy, technology, logistics or consumer choice, information support and protection for people will be crucial. A lot of this will not be within Ofgem's purview. A lot of these things to do with energy that will be happening in people's homes are not covered by the existing consumer protections that are in place.

Everyone in the energy policy world and the people we talk to agrees that consumers should be at the heart of net-zero plans, but very little attention is given to how it will happen and what it might mean. Most people just have one home. They do not want to be faced with a multitude of decisions and investments in a short space of time. There are lots of different conversations, funding and finance options. There is a space here where consumer protections are not fit for purpose in helping people to engage with making changes to homes. That is an area that certainly needs to be given some attention. There is a lot of discussion about public engagement for net zero. In our view, consumer protections should be core to that, so that people can engage with confidence.

Baroness Noakes: Do you think the energy market is likely to change to produce new intermediaries, and is that likely to be successful?

Dhara Vyas: Yes, I think there will be new intermediaries. There will be different ways of procuring and using energy. There are already aggregators who are almost like go-betweens between the supplier and the stuff that you might have in your homes—the appliances—so you can take advantage of using energy when it is cheapest.

One of the points we touched on earlier in this session is making sure that those who do not benefit from today's market ought to benefit from the future market. How you take people with you on this journey will be crucial. How do we design an energy market that is fair, accessible and inclusive? We have the opportunity right now to ensure that people can engage with the different changes that are coming in energy.

Having more control over how you heat your home, being able to pay for it in a way that suits you, and using energy when you need it or when it is cheapest should be good things for people. It is about how you make sure that everyone can engage with it and that people are not left behind on the journey.

In short, yes, I think it will change. There is an awful lot of innovation in this market, but it is also complex and getting more complicated. I made

the point earlier about regulators having to talk to other regulators. I know you are conscious of time. Technology is an example. If you are going to have a fairly expensive bit of technology in your home, you might have a finance agreement with it. There ought to be some consideration of how Ofgem works with other regulators to make it easy for people to engage with these sorts of things.

Baroness Noakes: I am conscious of time, Chair. I had probably better leave it there.

The Chair: Thank you very much.

Q30 **Baroness Donaghy:** Good morning, Matt and Dhara, and good evening, Lynne. My question is very similar, in fact, to that of Lady Noakes. What barriers are there to consumers playing an active role in transition, when I suspect the majority of us identify with being a disengaged consumer? How do you turn somebody into an active consumer unless the benefits are clear, transparent and as fair as it is possible to be? If Matt or Lynne would like to continue on that theme of the barriers and consumers, that might knit in well with Lady Noakes' question.

Lynne Gallagher: I will jump in quickly and give Matt more time. In Australia, the first wave of innovation was all about complexity and thinking that that is what you wanted to engage with. The next wave is making it simple. One of our aggregators offers to operate your batteries—your electric vehicles—for you. Its latest product is “no bill”. They actually pay your bill. They operate your electric vehicle, they operate the battery, they earn money in wholesale markets and in our ancillary services markets, and in return they pay your electricity bill for you. They account to you each week to show you how much they have made and how much they have paid for your bill, so that people can see whether they are ahead or behind. That is the promise: “no bill”.

Again, that obviously comes with the privilege and the opportunity to pay that up-front capital cost. It is a privilege and it is not available to everybody. That is starting to come into the way new entrants in Australia are thinking about doing simple propositions for customers, and they are starting to think about how to do it for vulnerable customers as well.

Baroness Donaghy: Thank you. Matt?

Matt Copeland: Beyond the sorts of things that I have already talked about—up-front and ongoing costs, energy advice, consumer protections for some emerging technologies—there are a few more. There is definitely the physical barrier that could come from homes not being thermally efficient enough to use certain heating technologies. Also, a heat pump, for example, might require an enhanced connection to the grid. That could take some time to get. It might be some extra admin that is unachievable to some vulnerable households, and it might cost you quite a lot of money that is not affordable. That is a clear barrier.

Behaviour change is another thing. Going to a heat pump from a gas boiler could require you to use your heating quite differently. Ensuring that people are able to change their behaviours in the right way is important, as is understanding the scale of change of behaviours that is required. We are not quite there yet.

One other thing we need to address is that, if we will move to a smarter, more connected system, we have to design it in an inclusive way for digitally excluded households. We know that some 20% of households are digitally excluded in some way, whether it is a lack of access to the internet or a lack of capability to use the internet. We cannot just design this smart system that works beautifully for 80% of the population and leave behind those who are excluded digitally. It has to be this dual front of designing products and services inclusively but also helping people to get connected to make the most of it.

Q31 Lord Grade of Yarmouth: Thank you to the three panellists for really informative and educational responses. I will be very brief. I want to pick up on the question of unregulated switching sites and who should regulate. I would agree 100% that they need regulators; you can imagine all the cowboys coming in and possibly making huge and unwarranted profit.

I would be interested to know who you think should regulate the switching sites and whether that is an issue in Australia. Let us start with Lynne. I have another quick question after that.

Lynne Gallagher: I can be very quick. We do not have a lot of comparison sites in Australia in that sense. They are certainly not independent. They certainly do not have a wide range of products. We need better regulation of switching sites in Australia, and it is certainly does not fall within our energy-specific protection framework. It is an issue.

Lord Grade of Yarmouth: Switching sites sounds like a big business opportunity in Australia.

Lynne Gallagher: It is. I think that in the UK you have a bigger price comparison sector than we do, but of course all of ours cross over—energy, insurance, financial. They are not energy. Our regulators are struggling with the difference between misleading and deceptive and just marketing. If you think about it from a consumer outcome point of view, you might be a bit bolder.

Lord Grade of Yarmouth: Thank you. Dhara, you raised this originally, didn't you?

Dhara Vyas: I did. You are right: they are not currently regulated. Reaching net zero is an area where third-party intermediaries will have a crucial role. They can simplify a complex market. They can help people to engage and find the right product. They can also be not best placed if they are not showing the whole of the market or all the options, for example. They have a really important role. There is no direct regulation.

Lord Grade of Yarmouth: We could all agree, I suspect, that they should be regulated. Who should regulate them?

Dhara Vyas: The Government committed to considering regulation in the energy White Paper. I can check back on where we are with that and send you a fuller response in writing. The different roles that they play and the different aspects that would have to be regulated would be something to consider between Ofgem and the FCA. Poor practice can really undermine trust, so I am glad that you support regulation.

Q32 **Lord Grade of Yarmouth:** I will assume Matt agrees. Just nod your head, Matt. Good.

You used the word “trust” there, Dhara. As we are on the foothills of this huge transition, trust between the consumer and the energy suppliers will be critical. I have to say that my relationship with my energy suppliers is below my relationship with my bookmaker, and you cannot get much lower than that. Some strides have been made to improve the obligation on suppliers to deal with complaints and so on, and there has been some progress.

Have we made enough progress? Are they still very cavalier in their treatment of consumers as a commodity to be milked? What do we need to do? Matt, perhaps you would like to have a go at that.

Matt Copeland: I will split this into two, if that is all right. They have certain social obligations that come from policies such as those I spoke about earlier—ECO and the warm home discount. More broadly, energy suppliers have been good at delivering those policies to the letter of how they are written. You can complain about what the policies are, but suppliers deliver them, broadly. From that point of view, they are good at delivering those policies.

On customer engagement and all that stuff, there is a spectrum. Some are really good. Some are less good. Citizens Advice has a league table that is referred to, so I will pass over to Dhara now.

Lord Grade of Yarmouth: Okay.

Dhara Vyas: Absolutely. I will send the committee information about our star rating and basket of measures based on company performance and customer service.

Lord Grade of Yarmouth: Is there any evidence that the energy companies take notice of what you have to say about them?

Dhara Vyas: There is. It drives performance in lots of different ways. I can unpack that a bit for you in writing as well.

Lord Grade of Yarmouth: Do you feed that into the switching sites, so that when they are moving you from whoever it is to whoever it is they tell you that, actually, this particular company has a shocking reputation?

Dhara Vyas: At Citizens Advice, we have a whole-of-market comparison site, so you can align that with the star rating. Whether other switching sites link to it or not is a separate question.

Lord Grade of Yarmouth: Thank you. Lynne, is there anything to add from your experience? Do you hate your energy companies as much as we do?

Lynne Gallagher: Yes. It is always problematic for me when we are asked to support campaigns for consumers to shop around to get a better deal. It is true that I am concerned about people's mixed experience, but we also have the metrics but we do not do it by company—we do it by sector. We ask consumers about their trust in all of us in the regulation of the sector as well as the single metric. We will send you that data as well.

Lord Grade of Yarmouth: Thank you so much. Thank you, all of you.

The Chair: Dhara, Lynne and Matt, thank you very much indeed. We have covered a lot of ground. It was very helpful. If you could send us some responses to the energy networks and the other points that have come up, that would be very helpful. I now call this session to a close.

Examination of witness

Andrew Large.

Q33 **The Chair:** Andrew Large, I welcome you to this session. We have just been listening to the views of households and individual consumers, and we now come to the views of businesses large and small. It would be very helpful to hear from you the concerns and attitudes among business users. You have already pointed out that a disproportionately high cost is imposed on large consumers and electricity generators, so we start off with the second highest level of prices within Europe. How do your members feel about the journey that we are now embarking on?

Andrew Large: I would like to say from the outset that our members, as large industrial businesses and large consumers of energy, are consumers too, so we have many of the same interests that domestic consumers have with regard to the size of their bills but also to the reliability and security of supplies.

I would also say from the outset that we absolutely embrace the net-zero challenge. The dilemma or paradox that we need to deal with is how we achieve net zero while at the same time securing foundation industry growth here in the UK. It is vitally important that we have that growth, because net zero will require huge investment in new infrastructure for the country, whether that is transport infrastructure, heat infrastructure or industrial infrastructure, and that will come with foundation products. It will need steel, cement, ceramics, chemicals and so on.

Our choice is where they come from. We can either produce them and use them here in the UK where we have a very high level of carbon ambition and a strong regulatory infrastructure for delivering that carbon ambition, or we can buy them on global markets from other countries that do not have the same level of carbon ambition and the UK's purchasing power will be contributing to more carbon emissions overseas. As net zero and carbon is a global problem, not a national problem, we cannot create a national solution for it that just covers the United Kingdom. We can only contribute to the global solution.

In terms of the current track of policy, as you rightly stated, Chair, we are very concerned by the disproportionately high pricing for industrial electricity here in the UK and, increasingly, sadly, for that of industrial gas, too. It has a direct effect on the attractiveness of the UK as a location for these industries. We get investment leakage where there are site closures, there is investment foregone in the United Kingdom or there is a gradual seeping away within European and global multinationals of the UK's internal attractiveness as an investment location to the point at which UK sites are uncompetitive and then, when there is a rationalisation, they are subsequently closed.

We very much want to work closely with Ofgem, BEIS and other arms of government to meet the twin objectives of securing net zero and at the same time delivering foundation industry growth all the way across the United Kingdom.

The Chair: Thank you.

Q34 **Baroness Bowles of Berkhamsted:** Thank you very much. What has led to the high relative level of UK industrial energy cost? You have already begun to answer whether this has been a factor in industrial activity moving to other countries. Picking up on some of what we have discussed in the previous session about whether the taxpayer should pay and where you have already got to, has the UK been less sophisticated or maybe too fundamentalist in its trade policy trying to look at products' cheapness and ending up offshoring its carbon? How do you intertwine all that back into making energy costs such that they are sustainable within the UK for all the industries you have already mentioned that need to be part of the future?

Andrew Large: Thank you. The costs that have caused the uncompetitive energy prices are a cumulation of lots of different individual costs. I listened to some of the previous session. While they were discussing, I was making a list of the different areas of costs and I got to 11 different individual costs that have been applied to business energy bills at various points in time. Each one of those is individually justifiable. You can understand why it has been produced but nobody seems to be looking at the cumulative cost impact, which has been devastating. We have businesses in the UK paying twice the electricity bill of their continental European counterparts.

I do not know whether you could describe the UK as being naive, but we have managed to lock in a certain amount of first-mover disadvantage, you might call it. If you take something like Hinkley Point, at the time that project was approved you could very much understand the logic of having some stable baseload of energy supply coming from a very large nuclear plant. But by locking in a strike price north of £95 per megawatt hour, you find yourself in a position where you have locked in a higher electricity price for decades to come.

That is what you might call a first-mover disadvantage. I do not particularly want to get into the whys and wherefores of nuclear power; that is not appropriate for this conversation. It is just an example of where government action in seeking to be a first mover has unfortunately had a perverse and unwanted side-effect in what the track of future energy costs will be.

The second aspect of the question, which touched on the issue of who pays, is that it is hugely important that we get away from the zero-sum game that it is either domestic bills or industrial bills, because that is a politically toxic debate and does not get into the richness of the challenges that we have.

I tend to agree with the thrust of what the previous panel said, which is that we need to look at less regressive means of funding the energy transition. Yes, there will be some contribution from bills from both domestic and business consumers, I have no doubt, but we also need to look at the potential role of taxation. We also need to look at the role of borrowing particularly in green bonds, whether they are for private or state investment. We have to get away from this zero-sum game, this balancing act, between the two communities of bill payers, to look more openly and widely at the potential sources of income for what is not just a national but a global transformation project in an incredibly short space of time.

To come to your final point, Baroness Bowles, on the issue of offshoring, I am certainly of the view that the UK is overfocused on its territorial emissions and insufficiently focused on its overall imported and consumption emissions. We need to have more regard to the implied emissions from all the consumer and other goods that we bring into the United Kingdom from elsewhere. By having this focus on territorial emissions and particularly in having a series of published targets and budgets for territorial emissions, we create a perverse incentive for a Pyrrhic victory of a quick win. It starts to look very good for meeting the UK's carbon target if industrial capacity declines rapidly.

What we are completely ignoring in that process is the fact that, as I said earlier on, the demand for the goods does not disappear; we just buy them in from some other country. Many countries in the world do not have the same ambition as the UK when it comes to carbon reduction. Many countries still rely on coal and other highly carbon-intensive forms of energy generation, including other countries inside the European Union. As a result, we are increasing demand for their high-carbon-

emitting energy system at the same time as we cut demand for our own relatively lower and decreasing carbon energy system. That seems to me to be perverse in the context of what we are trying to do globally, which is to reduce the globe to net zero by 2050, because that is what we need to do to avoid this climate crisis reaching the difficult places that it might.

The Chair: Thank you.

Q35 **Lord Blackwell:** The right price for energy costs for industrial users in the UK is clearly a very difficult judgment to make, given the trade-offs against the speed of conversion to net zero and the potential other sources of funding it from taxation or whatever. It is particularly sensitive if, as you suggest, the trade-off may well be reducing production in the UK and importing higher-carbon imports to replace them.

How would we or the Government go about deciding what that right price level is to reflect those trade-offs? Can that be left to Ofgem, or who should be doing that?

Andrew Large: It is very difficult to say the price should be £X per megawatt hour or whatever it is. We need to have a market system in place, but that market system requires the correct incentives. We need, therefore, to have a holistic view of what we are trying to achieve. One of the problems that energy-intensive industries feel is that this is all quite siloed. We have companies doing their best to provide the best-quality products they can for the consumers within the context of the energy and regulatory policies. We have government and BEIS driving the net-zero agenda, and then we have Ofgem, as the regulator, looking at energy supply and networks and seeking to represent the interests of consumers.

How we make that better is probably the way I want to reflect on this. I have been trying to pilot meetings. I have had a couple of meetings now with the chief executive of Ofgem and the Energy Minister. I have been trying a tripartite approach. It is quite apposite that Wimbledon has just finished, because I rather liken what has been going on in the past to a game of tennis where we hit the problem back over the net to each other. One party regulates and the other party then says, "Well, hang on, we need a compensation scheme for this, because otherwise we're uncompetitive", and we very quickly get into what Dieter Helm identified as the morass of complexity of current energy markets and structures, and so on. I have been constantly saying to Ofgem and to BEIS, "Can't we all get together on the same side of the net and work the problem collectively rather than hitting it back and forth to each other?"

I was very interested to hear in the previous session about the work that Ofgem does with the Citizens Advice services with regard to consumer panels and piloting and researching the effects of regulation on consumers through that group. I have to inform this committee that there is basically nothing parallel for energy-intensive industries. We do not, for example, have anybody with energy-intensive industry experience on the Gas and Electricity Markets Authority, whereas there is

a domestic consumer representative. We certainly feel that, although Ofgem's remit is to represent all consumers without hierarchy or priority, it is focused on supporting the domestic consumer and has rather allowed industrial consumers to become a residual in that. To be honest, that is outside their remit, and we would encourage Ofgem to return to its remit and to have greater regard for the position of industrial consumers as well as domestic consumers.

Your previous panel commented that Ofgem does not have a strategy and policy statement. We were delighted to see in the energy White Paper a commitment from government to consult on the introduction of a new strategy and policy statement, and we would absolutely welcome that. We would wholeheartedly want to engage in the debate as to what Ofgem's revised governance arrangements should be. We absolutely think that it needs to have greater duties with regard to international competitiveness and greater duties to work alongside government in support of the net-zero agenda rather than finding itself in a position where its regulatory approach and the Government's industrial strategy might butt up against each other and end up producing some perverse outcomes.

Lord Blackwell: If you want to get market pricing working, would you advocate a carbon tax on imports as part of getting a level playing field?

Andrew Large: I think it is too early to tell whether a carbon border adjustment mechanism is something that we would want to advocate for. There is still an awful lot of work going on to understand how such a thing might be designed; how it might interact with emissions trading schemes; how it might interact with exports; whether it would be WTO-compatible; and how a country like China, to pick a country that is a large exporter to the UK, would react in such circumstances and how it would perceive the impact of such a carbon border adjustment. It is absolutely a debate we need to have and potentially part of the armoury in creating a level playing field.

I have not given up yet on the concept of a global price for carbon. Having more global acceptance of emissions trading schemes such as the UK ETS and the EU ETS, more global linkage of those schemes, and more recognition of the power of those schemes in directing activity towards lower-emitting industries and driving energy efficiency within industries, would be a better way to go, although I am not naive as to the scale of the challenge.

Q36 **Lord Curry of Kirkharle:** Andrew, thank you very much for your responses so far. They have been extremely helpful. I wonder if we could explore the Energy Intensive Users Group's view towards the regulatory framework, in which clearly Ofgem is the key player. How much of a problem is that for you? Does it cause difficulties as far as your members are concerned?

Andrew Large: Sorry, could I clarify what you meant? Is it the regulatory framework itself that causes issues that you are interested in exploring or the role of Ofgem within it?

Lord Curry of Kirkharle: Both.

Andrew Large: To come to Ofgem first, as I said in response to Lord Blackwell's question, the difficulty we have with Ofgem is, in our view, its disengagement with the business and industrial energy-consuming sectors. We would like to see it pay much more attention to our particular needs and to engage with us in a much more transparent and up-front way in how it is seeking to allocate the costs that fall to it to allocate so that it can have a proper understanding from us of the impacts of those costs on industrial competitiveness and so that it can work with us to do what needs to be done in pursuit of its overarching regulatory objectives, of which net zero is a major part, in order to make that happen.

More generally, as I said earlier, there is a large and growing list of individual regulations that are being imposed on electricity bills that fall very heavily on business consumers. We absolutely need to take a step back and say, "What is that cumulative impact?", to recognise that it is too high—we now have common ground with BEIS, Ofgem and from industry that electricity prices are too high—and to take a step back and say, "Okay, each individual measure has some justification, but let's look at the thing overall. Let's look at what that means for the attractiveness of the UK as an inward investment location overall, and then let's see what we can do to try to manage the impact of those costs, to understand on whom they fall and what other potential sources there are of funding this transition".

I would like to pick up on one thing that your previous panel said. I believe that it was Matt Copeland who focused attention briefly on the green gas levy. He made the point that that was highly regressive, because it was meter point by meter point and therefore could bear down on a household inasmuch as it could bear down on a business. He is right in the very short term, but the committee should be aware that the Government are already consulting on moving the green gas levy to a volumetric basis rather than a per meter point basis, and that would very substantially increase the bills faced by industrial gas consumers. It runs the risk of replicating for gas what we would regard as the errors when it comes to electricity in starting to chip away at the competitiveness of the fuel by adding more and more individually justifiable additions to the bill without taking two steps back and thinking what this means for the totality of the competitiveness overall.

Q37 **Lord Curry of Kirkharle:** I have a quick follow-up. You have mentioned the number of additional costs that have been applied. Could you comment on the complexity of this and whether large users of energy find it difficult to switch suppliers, as we have found with domestic suppliers?

Andrew Large: This is one of the areas where the position of domestic and industrial consumers is slightly different, inasmuch as there is more of a negotiation that goes on between very large users and their electricity suppliers. That said, I would certainly agree with you that the energy market and its structures are too complicated and there is a thriving business in consultancy to provide advice on how to do better in these marketplaces. Frankly, not everybody can afford that consultancy, so it creates difficulties.

Ofgem's own structures, particularly with regard to things like code modifications, are pretty opaque and pretty difficult to deal with. They tend to be dominated by technical experts from the supply side—technical experts representing power generators, network operators and so on. That has the effect of giving a bit of a lopsided view of reality to Ofgem. I would certainly want much greater involvement of the consuming side of energy—both gas and electricity—to be made available to Ofgem's thinking so that it sees not just the supply side but the demand side, and it gets a more rounded view of the challenges being faced.

Lord Curry of Kirkharle: Thank you.

Q38 **Lord Eatwell:** Mr Large, one theme that I have seen running through your answers is the need for a competitive industry in supply. I am very interested in security of supply. Security of supply requires redundancy. In other words, it requires excess capacity by producers if supply is to be resilient. A very competitive market discourages the maintenance of redundancy. What are you most interested in—a competitive market or security of supply?

Andrew Large: I do not believe it is an either/or question and an either/or answer. As soon as you have insecurity of supply, you run the risk of not having a competitive market, because investors will not want to locate in the UK for fear of interruptions, and you get a risk—

Lord Eatwell: Sorry, I thought you meant the competitive market on the side of electricity suppliers. That has nothing to do with investors coming to the UK.

Andrew Large: If I am an energy consumer, do I want to be in a location where I am carrying risk of supply interruption? My point is that I probably do not. The reason why I do not is because most, if not all, of the energy-intensive industries are 24/7 by 365 continuous processes, and they rely, to gain their profitability, on being able to operate freely and without interruption. If you force them to stop because of either planned or unplanned interruptions, the productivity and economic damage is very high, but also in some industries you can physically damage the plant and equipment by an unscheduled stop to the point at which it becomes a very major and expensive investment job to restart after such an unplanned stop.

So I guess I take issue with the central premise of your question that security of supply and competitiveness of pricing are somehow separate from each other because, actually, you would not—

Lord Eatwell: Hang on, excuse me. If I am a supplier, I want to keep my costs as low as possible in order to compete with others. Therefore, I am very reluctant to have large quantities of redundant plant that might be needed in a supply emergency. So a very competitive industry would discourage me from carrying large amounts of redundant plant unless I can sell that fact to my customers as an advantage.

Andrew Large: I think you raise a very fair issue. From the point of view of the large consumers, there is an interrelationship rather than a trade-off between price and security of supply. One of the points that Ofgem has noted about the UK market is the relative lack of interconnectivity. If you go to a country like Germany, it is at the very least in part achieving some of its security supply objectives by being absolutely at the hub of the series of energy networks across Europe.

I understand that further investment in UK interconnection is coming forward, and I would certainly seek to encourage that, because I think it helps to bridge some of the challenges that you quite correctly raised about the needs for redundancy vis-à-vis the needs for ongoing price competitiveness. But I do not entirely agree with you that we can divorce those two things. If we have risk of interruption, from a customer point of view, that creates challenges that go above and beyond the price of the individual units of energy or heat that are being bought.

Lord Eatwell: Thank you.

Q39 **Lord Burns:** Andrew, you said that you do not want to get into a zero-sum argument about the consumer or industry, but then you have gone on to imply that the balance has moved too far away from consumers and on to industry. Is this the case relative to other countries? Who has made this decision? Is this Ofgem or government?

Andrew Large: Thank you for that question. It is absolutely the case. Ofgem has in the last week published its own analysis that demonstrates just how much more expensive UK industrial electricity is than the electricity provided in major competing nations like Germany and the Netherlands. Where has that come from? In my view, it is a government-wide failure, for want of a better phrase. It is this death by a thousand cuts of a very large number of individually justifiable measures where nobody has really taken a step back and looked at what that is doing to the overall competitiveness position of the UK as an industrial location.

I say that I do not want it to be a zero-sum game, because I do not want people looking at this as a single set of scales whereby if domestic bills go up, business bills go down, and vice versa. We have to make sure that we are looking more holistically at bringing in other sources of funding. I know your previous panel talked about general taxation. There is clearly potentially also a role for borrowing in this in green bonds and the ability

to look at specific funding streams for specific net-zero promoting and compliant initiatives.

There has been too much of a focus on business bills, but I am absolutely not advocating that the answer should be that domestic bills should go up. We need a wider-ranging conversation, which I think your previous panel also focused on, about how we can find a wider range of sources of income to fund the energy transition than just the bills, be they of domestic or business consumers.

Lord Burns: It is still a zero-sum game; it is just that you want to expand the game so that you have introduced some other sources of people who are in the game who can bear some of the costs of this. Is an implication of this that we need a serious look at the whole regulatory framework here? Once you have started to expand the game, as you have said, in terms of taxation et cetera, you are into decisions that are way beyond the remit of Ofgem. Is a serious rethink not required here about the kinds of decisions that we will have to face and who is in the best place to take them, and then what the role of the regulator is and the implementation of that in terms of the consumer protection role et cetera?

Andrew Large: I would absolutely agree with that. Net zero by 2050, so in 28 and a half years' time, is the biggest global project of my lifetime. It will be the biggest global project perhaps of anybody's lifetime. It will be massively changing not just for the developed and advanced economies but for other countries that do not yet have the kind of energy-demanding economies that we have but which perhaps hope in future to have a wider-ranging spread of consumer durables and so on within their households.

If we as a country are serious about net zero and serious about doing what it takes to deliver it, I would absolutely agree with you that that has to start to become the fundamental organising principle of our definition of the national interest. That, as you say, is an issue that goes far beyond the issue of energy price regulation and energy supply regulation, because it has to look at the nature of work, the nature of transport, the nature of our agricultural relationships, our expectations with regard to travel and mobility, and so on. It is so all-encompassing at that point that I would agree with you that it is well beyond the scope of anything other than a whole-of-government organisational focus.

Lord Burns: Thank you very much.

Q40 **The Chair:** Andrew, you have mentioned in a number of your responses engagement with government. Do you feel that there is sufficient engagement between the business sector and government in preparing the plan and addressing the problems that have come up in both sessions today?

Andrew Large: I would say that we have very good relations with government. We have very good relations with senior civil servants and

Ministers on this issue. I think there is a mutual recognition of the importance of the agenda that we are working on. We need to see more progress on the UK Government recognising the scale of the problem that we face. If I look at what is going on in the European Union, for example, I think that about €1.85 trillion is being earmarked as a combination of public and private investment in the EU's green growth plan between now and 2050. I have heard a similar figure mentioned for Joe Biden's work in the United States of \$4 trillion in a similar direction of investing in infrastructure.

If we were to look at relativising the proportion of the UK economy vis-à-vis the European Union economy, we are something of the order of 20% the size of the EU economy. On that basis, we should be looking at figures into the hundreds of billions of pounds being already talked about and seriously earmarked for long-term funding of transitional programmes in order to move us from where we are today to where we want to be by 2030, 2035 and then 2050.

From the outset, there are a number of short-term schemes ongoing, things like the Industrial Energy Transformation Fund and the Transforming Foundation Industries challenge through UKRI, which are very welcome and which our industries are engaging in very fully. But they are not sufficient. They are one or, indeed, two orders of magnitude too small in comparison with the ambition that is being shown in other countries.

We have good engagement, but we need to go from a shared view of the problem and a shared view of our willingness to tackle it to seeing real action on the ground of the scale required to deliver what is needed.

The Chair: Andrew, thank you very much for that, and for the other responses that you have given. We may well want to return to you and ask for some written evidence on some of those topics because, like you, we too are in search of that plan. Thank you very much for joining us today.

Andrew Large: Thank you.