

Business, Energy and Industrial Strategy Committee

Oral evidence: UK Gas Market, HC 741

Wednesday 22 September 2021

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Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Mark Jenkinson; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

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Witnesses

[I](#): Emma Pinchbeck, Chief Executive Officer, Energy UK; Jonathan Brearley, Chief Executive Officer, Ofgem; Adam Scorer, Chief Executive, National Energy Action.

[II](#): Rt Hon. Kwasi Kwarteng MP, Secretary of State, Department for Business, Energy and Industrial Strategy; Joanna Whittington, Director General, Energy and Security, Department for Business, Energy and Industrial Strategy.

Examination of witnesses

Witnesses: Emma Pinchbeck, Jonathan Brearley and Adam Scorer.

- Q1 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee for a hearing on the issues related to gas prices and the Government's response. For our first panel, I am delighted to welcome Emma Pinchbeck, the CEO of Energy UK; Jonathan Brearley, the CEO of the energy regulator, Ofgem; and Adam Scorer, the CEO of the consumer group National Energy Action. Good morning to all three of you.

Mr Brearley, the Prime Minister said this week that the issues that we are facing are temporary. How long will temporary be?

Jonathan Brearley: It is extremely difficult to predict the future of the gas price, and we have seen some unprecedented changes over the last few months. Just to give you an idea of the scale of change, the gas price is almost six times the level it was last year, and it rose 70% in August. We are in unprecedented cost territory. There are many factors that have contributed to that, including increasing international demand and potentially some restrictions around supply. It is very hard to predict how long those will last. Ofgem are making sure that we have plans in place to cover any scenario, wherever the gas price may go, and of course that is creating a lot of pressure on the sector right now.

- Q2 **Chair:** Can you help me understand what you think gave the Prime Minister the confidence to say that it was going to be a temporary issue? Are there particular factors at play that might be temporary?

Jonathan Brearley: When you look at commodity markets as a whole, history suggests that spikes like this do go away. All I would say is that that is not something that Ofgem would rely on, simply because we have to plan for a whole range of scenarios.

- Q3 **Alexander Stafford:** It is good to see Emma Pinchbeck; I want to declare that she and I used to work together, many moons ago, at WWF.

How significant is the current gas crisis, especially compared to shocks over the last 10 years? The Secretary of State told the House a couple of days ago that at this time of year it is not uncommon for gas prices to go up and companies to get into difficulty. How significant is the current situation?

Jonathan Brearley: I do think that this is a different kind of change. The sector has faced shocks; we have talked about how we managed through the covid crisis, which had a big impact on the energy sector overall. However, when you see that change—and I would encourage you to have a look at the change in the gas price—it really is something that we do not think we have seen before at this pace.



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Thinking about the impact, let us start with customers. Unfortunately, when you see costs like this change, they ultimately feed through to customers. Ofgem are concerned to make sure that customers are looked after throughout these changes and the impact on the sector. Equally, it is true that there are many suppliers under huge pressure now because of that quite dramatic change in their cost base.

Q4 Alexander Stafford: How many suppliers are actually at risk? Are they large ones or small ones? Going back to what the Secretary of State said a couple of days ago, at this time of year some companies go out of business. What is the scale difference?

Jonathan Brearley: We have seen exit from this market before. We have had double digit numbers of companies exiting the market over time. So it is not unusual for suppliers to go out of the market. I think that what is different this time is the dramatic change in the cost that those suppliers are facing. We have had five, roughly, over the past few months; we had a number more at the start of the year. We expect more not to be able to face the circumstances that we are in, but it is genuinely hard to say more than that, partly because that would mean predicting what may happen to the gas price. All I want to say here is that this is a significant impact on the sector, and it is something that we are working with Government to manage. However, we cannot make predictions as to how that will play out.

Q5 Alexander Stafford: You must have made some sort of prediction: you said more are likely to go under. How many more, and how many customers are likely to be affected? Do you have a guesstimate?

Jonathan Brearley: We are planning for a range of scenarios, and we do expect a large number of customers to be affected. We have already seen hundreds of thousands of customers affected. That may well go well above that. However, without betraying commercial conversations that we are having right now, it is very hard for me to put a figure on it.

Q6 Alexander Stafford: You said a large number of customers, and more than hundreds of thousands, so I take it that you mean millions. You may not be able to say that, but that is what I am reading.

Jonathan Brearley: Certainly a large number of customers. As I say, we would not want to pre-empt any processes that we are in.

Q7 Alexander Stafford: Of course. Are those companies going to be large players as well as the medium and small ones, or are the large players relatively safe?

Jonathan Brearley: We are seeing six times the change in the gas price, six times the change in costs that this industry has faced, so I don't want to sit in front of this Committee and make a series of predictions that are really hard to make right now. All I will say is that we, as Ofgem, as a prudent regulator, are making sure that we plan for all scenarios. I want to emphasise that this is something that we have war gamed. We thought about and planned for it, so we have the systems and processes in place



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to deal with it. It really would not be responsible for me to say exactly what I think will happen right now.

- Q8 **Alan Brown:** I am going to stick with Jonathan. You have said that it is normal that some companies effectively go bust every year. The Secretary of State said that it is quite normal for companies to go under once it is time to pay the renewables obligation. Surely that is a failure of governance if companies are allowed to operate until it comes to paying their dues in the renewables obligation.

Jonathan Brearley: That is one marker. One marker is when the bills for the renewables obligation come out. We have worked with the Government to try to reduce the length of time we wait to get those payments in. There is a consultation and a discussion about that already. However, that is not the only time that companies go out of the market. They exit at different times of the year depending on circumstances. Clearly, when you see such a big change in wholesale costs, for some companies that is well beyond what they have been able to prepare and manage for. That is what we are seeing in the exits today. The renewables obligation is significant, but the main factor is the changing costs.

- Q9 **Alan Brown:** What is your assessment of the overall security of supply going into winter, or through the winter?

Jonathan Brearley: I want to re-emphasise what the Secretary of State said. We have one of the most secure and resilient systems in the world. We have a diversity of sources of gas and a resilient electricity system. I have been in this business for 15, 20 years. You cannot rule anything out, but we have a very resilient system that customers can rely on.

- Q10 **Alan Brown:** Can I come to Emma, please? Do you agree with that assessment, or are there other measures that your members think the Government need to take just to confirm security of supply over the coming months?

Emma Pinchbeck: On security of supply, we are following the Secretary of State's advice, having spoken to the rest of the system. Certainly right now, we are confident of keeping the lights on. As Jonathan said, sensible systems plan for every eventuality, so I know that the system operator will be talking to Government and planning for other scenarios.

In the long-term, the Government need to crack on with increasing the size of the power sector and investing in technologies that will sit alongside our renewables fleet—things like hydrogen, carbon capture and other forms of storage. That is for two reasons. First, having more of our own domestic sources of generation removes us from the volatility of the international gas market. Secondly, it provides a much more secure system that we can then perhaps trade into the European system. It gives us more options and more control. Also—this is for another Committee—there are huge advantages to the UK in doing that. The Government have done all the right things in pursuing that strategy, but we argue that we should not overlook the power sector as we move on to look at heat and transport decarbonisation.



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In short, I agree with Jonathan on the very short-term picture: it looks fine and we have to follow the Secretary of State's advice on that. In the medium term, we need to keep an eye on security of supply right through this very challenging period. Lastly, in the long run, we need to crack on with delivering the system change that we are talking about for net zero.

Q11 Alan Brown: Are there any issues that you have flagged up to the Government or Ofgem that perhaps have not been acted on? Have you any concerns about the retail energy market or wider issues?

Emma Pinchbeck: Building on security of supply, on the question of resilience, we often default to thinking about infrastructure, but I would argue that the crisis has exposed that our retail sector is where we have real vulnerability in the UK. Although I do not disagree with Jonathan that any regulatory framework would be challenged by the increase in gas prices—and we are in the middle of an unprecedented event—there are features in our market design that make it very difficult for the retailers to adapt to the current situation. We have raised those features with Government and the regulator on a number of occasions. Long story short, it means we are not just in a situation where we have regular market failure; in the traditional market, win or lose, we have got companies that are very well-run and well-hedged but that are worried. The retail sector overall makes a negative margin, which, at the time of a price shock means that they have nowhere to go. That is worrying on two fronts. First, there is the level of failure that we may see. I do not want to stoke speculation or worries, or to create market jitters, but that is a factor. As Jonathan said, there could be multiple failures at once, rather than spread over a period of time, and then there are the costs of that.

Secondly, the real worry is that the sector is so fragile as a whole that players that might be expected to pick up customers are worried about doing so because of the costs of doing it. There is no cash down the back of the sofa for retailers at the moment. That is terrible news for consumers.

Q12 Alan Brown: We will come back to that, but we are going to have to move on. Nobody seems to want to put the figures in the public domain in respect of how many customers are going to be affected, but are you talking behind the scenes about how many customers might be affected and the back-up plan for that?

Emma Pinchbeck: We are. I will echo Jonathan and say that because we are worried about customers, I do not think it is right to speculate about the scale of the crisis—at least not in a public forum—because we are already seeing record-breaking numbers of customers phoning the consumer-group helplines and their suppliers, and they are very worried about this period. In the very short term, the industry and Government are doing the right thing—they are in the room, trying to come up with solutions to the immediate crisis—but in the medium to long term, we cannot lose sight of the fact that our market design has contributed to the failures that may or may not come and the worries we are experiencing right now. It would be a shame if we missed the opportunity to have a



root-and-branch review of our retail sector and ask some significant questions about how we ended up here. But no, I am not going to speculate on the scale. Suffice it to say that the undertone of what both Jonathan and I are saying is that it is a serious situation.

Alan Brown: Thank you.

Q13 Paul Howell: We have heard quite a bit of discussion in the press about the Nord Stream pipeline—both Nord Stream as it stands and Nord Stream 2. Emma, what is the impact of that, in respect of both how important it is to UK supply in the push-through of European supply and the sensitivity of Nord Stream 2 for the longer term?

Emma Pinchbeck: We have an interconnected market with Europe, which is a good thing in the long run. In fact, this is not for this Committee, but we would like to see continued and easy trading into the European markets and a linked ETS, because that often makes it more cost-effective for our customers.

In the long run, when we have a large offshore wind fleet it will make it easy for us to be an exporter of energy to Europe, but at the moment we obviously import a lot of gas from Europe, so what happens with Nord Stream and the global gas supply in general does affect us as an importer. There is a lot of conversation about the geopolitics of gas, which I am not going to touch on, but the picture for the spike in gas prices is more complex than just one asset; it is also about a mild summer and shortages of gas supply as a whole. That is to do with things like the liquid natural gas market moving to Asia rather than Europe, and other global factors. We are seeing that play out in other countries.

We have also seen a change in demand, which then affects supply, because we have had warmer and weirder weather patterns. The pandemic has also changed demand patterns. It is a mix of factors, not just Nord Stream. In the long run, connection with our European neighbours is a good thing for customers because of the transition we are going to be going through with our own infrastructure.

Q14 Paul Howell: Jonathan, will you expand a little on the significance of that? You have said that there are many factors, but if you were going to rate the factors you have listed and, say, there are five factors, is Nord Stream first out of five or fifth out of five? Or are they all broadly similar in their impact?

Jonathan Brearley: If I were to abstract it all out, there are two big factors, one of which is the demand factors that Emma described, particularly coming out of Asia. To give an example of the scale, two thirds of all the gas that the UK uses has been added to the amount that we thought we would need in the market. When you look at what the IEA has said, there is definitely more demand than anyone expected. Honestly, it is not for me to comment on the behaviour of companies or countries, but if there are supply restrictions or challenges around pipelines, they will have an enormous impact, because a marginal shift in a market of this type creates the kind of price spikes we are seeing.



Q15 Paul Howell: Okay. Has Ofgem engaged with EU and Norwegian regulators to ensure that any increased friction in energy trading because of the UK's withdrawal from the internal energy market has not meant we have been over-disadvantaged?

Jonathan Brearley: I do not think that has been a factor in the current set of problems. Look, we have good access to gas and good trading. This is a global problem, a European problem. We are not the only country facing issues. For example, you can see that Spain has had similar issues and Japan has similar issues. I do talk regularly to regulators across Europe to discuss this. I am also in touch, for example, with the German regulator to try to understand the situation with supply in particular there. All I would say is that this is not a British problem; it is a global problem, and it is caused by the global gas price.

Q16 Ms Ghani: I want to respond to something Jonathan said. I know that you do not wish to speculate, but I am trying to understand how you are forecasting. In particular, touching on Nord Stream 2, the European Commission has been urged to open up an investigation into deliberate market manipulation by Gazprom. Did you have that and how our Government should respond to that in any of your forecasting?

Jonathan Brearley: We do forecasts of the overall gas price, and we do look at the market projections at the time, but this is a discontinuity. It is far, far above even any of the most conservative projections, because it is not just the issue of supply but the supply plus the demand factors, plus what sound like some quite granular trading issues around simply the number of ships you can get on the water and all the issues around ports. So it is a contiguity of events that has led to this, and it is beyond what any of us thought would happen at this time of year.

Q17 Ms Ghani: Would you agree with colleagues in the UK Parliament who are saying that manipulation of the supply chain can be considered part of a grey-zone conflict? Do you think it is that serious or not?

Jonathan Brearley: Look, it is not for me to comment on the behaviours of other countries and companies outside of the UK borders. My remit is within them. All I would say is that any restriction of supply will have a big impact on the market at this time.

Q18 Mark Jenkinson: Jonathan, how well do you and BEIS understand the financial position of energy retail businesses and the challenges that they face?

Jonathan Brearley: We have detailed financial analysis on all retailers. We talk to all retailers and, particularly since the covid crisis, we have made sure that we have a clear understanding of the position of different companies. But what we have had to appreciate is that the scale of change in that situation has been really fast in the past few weeks.

I want to emphasise something that Emma said. There is a question about the behaviour of some companies and the risk management behind them, but all companies are feeling the strain—in any market you would when you see prices go six times above what they were last year.



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Q19 Mark Jenkinson: You say that you have detailed financial information. Do you have an active role in the governance of any of the companies? Do you attend any of their audit and risk committees or anything like that?

Jonathan Brearley: We do not attend audit and risk committees, but what we do—*[Interruption.]* Apologies; one moment.

Chair: The lights have gone out.

Emma Pinchbeck: Don't panic—that's not a security of supply issue; it's just Jonathan's room.

Jonathan Brearley: That was unfortunate while we were talking about security of supply. Just to reassure the Committee, these is movement-sensitive lights for energy efficiency.

What we do have is something we call a request for information. We ask for detailed financial analysis from suppliers, and that is what feeds into our overall assessment of the market. As you can imagine, we have been upping the pace and scaling that as the gas price situation has emerged. That is what we rely on. Then we discuss with individual companies where we have concerns.

Q20 Mark Jenkinson: Emma, I will come to you in a moment. Why did this take us by surprise? Do we need to improve the quality of that monitoring? Do we need to increase the regularity rather than just wait for a crisis?

Jonathan Brearley: I want to come back to some of Emma's comments. We are going to have a "lessons learned" after this. We are going to have to look at this in detail, but we have regular requests for information, which we do process, and we have a very detailed look across the market. The thing is, the situation changed very quickly, particularly in the month of August. That is what we have been responding to.

Equally, when a company is struggling and facing financial difficulties, we do not just sit back and look at the financial information. We have very detailed conversations with them.

Ordinarily, those take some time to work through. It is a tough decision for any company to accept that they are in a situation that is unrecoverable, but we are a full part of those conversations. As you can imagine, my retail director has been working across the sector to make sure we understand the ability of different companies to respond to it.

Q21 Mark Jenkinson: Emma, did you want to come in?

Emma Pinchbeck: I think your question is about how much of this is to do with badly run businesses, and frankly it isn't. I'm sure there are some badly run businesses in the sector. They would, in any normal market environment, fail against well-run competitors. On top of that, let us not forget that the businesses are heavily regulated. As Jonathan says, he has access to a lot of commercial data. There are 500 pages of regulation that every company needs to meet to enter the market. The current crisis is



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affecting well-run companies, as well as any badly run companies that may be out there. It is across the piece.

I took this job a year ago, and when I was hired, the chairman of Energy UK said, "Your biggest challenge is going to be the vulnerability of the retail market." I know that for a year or more before that, my team had been making the case to the regulator and the Government that the sector is fragile. A lot of that is about market design. No competitive market would be making an average return of minus 1%, which is according to the same figures that Jonathan has told you he is looking at.

There is a short-term crisis here, which is in some ways out of our control. It is to do with the gas price, but it has been exacerbated and arguably caused by our regulatory design. That is a resilience and security of supply risk for the future. It is a terrible news for customers in the long run. When we are through this, whatever support we put in place in the short term to make sure customers are looked after, we desperately, desperately need to stop dismissing retailers when they say, "The market design is not fit for purpose. The market design is harming customers. The market design means that we are not making any margin. The market design leaves us vulnerable and fragile."

Q22 Chair: Jonathan, can I come back to this for a second? In the last year, for example, if you have seen profit and loss for companies, how many of the, I think, about 70 suppliers have been on average loss-making?

Jonathan Brearley: Basically, in the last year we have seen a total of seven companies that have exited the market, starting right back in January—some of them exited then. We have had fluctuations in the numbers over the years. As I say, there was a point after the beast from the east when we saw a large number of companies exit.

Q23 Chair: Sorry, Jonathan. I don't mean exit; I mean loss making. I mean companies that have been allowed to continue to offer services in the regulated market, but you know from their financial reports that they are not making any money.

Jonathan Brearley: There are a number of companies that are loss making.

Q24 Chair: How many?

Jonathan Brearley: In a sense, I think the majority have been struggling, it has to be said, but many of them are struggling for different reasons. To give you an example, there are some companies where, although they are making a loss, part of that loss is driven by them investing in growth. There are companies that quite deliberately want to grow and are investing in making themselves bigger, and have become quite successful. There are some very successful players that have a big growth strategy. Equally, we have seen some companies clearly in profit, particularly in the public market, but there is a change going on.

I want to bring the Committee back to the discussion we have been having over the past five or so years. I want to remind the Committee about what

the CMA told us about the retail market. It was two things. First, there was customer detriment in the market previously when we did not have such a thing as a price cap. We know that margins at that time were not acceptable to customers.

Equally, companies need to change their operations. They need to change the way they are run. Emma is right that the average margin was minus 1%, but that was going up from when the price cap was introduced because companies have adapted and changed. I accept that we will have to look at the resilience of the market, given the scale of the cost shock that we have seen this time. We have to ask ourselves whether we need to prepare for things like this in the future. I want to come back to the point that, ultimately, companies need to adapt and change, and there are some very successful players in this market that are growing.

Q25 Chair: Emma, do you want to come back quickly? Then I need to move on.

Emma Pinchbeck: It is probably unedifying to have a punch-up with your regulator in public. In the short term, we welcome the engagement of Government and the willingness to look at short-term solutions for the sector. Just to reiterate, it is the whole sector that is struggling, so it cannot just be about badly run or well-run companies. It has to be about market design. Jonathan has just said that there were negative margins across the board.

The CMA review was a long time ago. We absolutely agree as a sector that there have been some really good things coming out of that—businesses that are incredibly successful, innovation, more efficiency, and low costs for customers in the short term. Our point here is that we need to do something in the short term to look after customers. That is clear, because the market is so fragile that we cannot respond. But in that the market is so fragile that we cannot respond, there are big questions to answer about whether the market design that we came up with after the last CMA review is still adequate for the conditions of the wider energy sector, or whether it is successfully managing short-term and long-term risk to customers.

Fundamentally, this is about customers. Any market failures will have to be picked up by customers in the end. We are not disagreeing that there have been some really good things about what has happened in retail policy over the last decade. Why we have not reviewed that retail policy, given what we have known to be true about the fragility of the sector, is the question, and I am pushing it because if we get through this crisis and forget about that, we have failed to plan for the future and for the security of supply.

Q26 Richard Fuller: I would like to ask some questions about hedging and forward planning by energy companies to Emma Pinchbeck, and also ask for the observations of Adam Scorer. Ms Pinchbeck, have the hedging markets for energy been working historically, and are they working now?



Emma Pinchbeck: Every company's hedging strategy is down to them, but coming back to the current crisis, it is difficult to hedge for something this significant. As Jonathan said, we have had a 300% increase in gas prices since the beginning of the year. Naturally when you get a price shock, it is a shock for a reason—it is very hard to predict. That said, a lot of our retail members in particular are telling us that they scenario plan, just like the regulator does. In any well-functioning market, they should be able to hedge for events like this.

The point of significant concern right now is that there are features of our market design that make it difficult for them to hedge as far ahead as they might like to. For example, the methodology of the price cap—this is not a discussion about whether we should have the price cap; it is just illustrative of the methodology—is neither flexible enough, moving rapidly enough, nor allowing enough headroom and margin for sufficient hedging. When you get a price shock, that becomes a very difficult thing.

Q27 **Richard Fuller:** That is an important point. Can I just ask Mr Brearley, is that criticism that the price cap essentially limits access of UK companies to certain hedging products correct?

Jonathan Brearley: There are two things. First of all, in any price cap you cannot allow for any circumstances, because you simply build up to a rate that is not sustainable for customers. The methodology of the price cap is one that companies can hedge against, and we do have within the price cap what we call headroom, which is simply space for things that are unable to be managed in anyone's hedging strategy.

When you get to the point at which costs have increased as much as they have, clearly this puts companies under strain. The point I would make is that we do have a range of companies out there. Some are managing very well through this and some are really struggling. Once we are through this, we just have to look at how those two different behaviours have been managed.

Q28 **Richard Fuller:** Ms Pinchbeck, you must surely accept that in this we are seeing certain companies that have been prudent and able to look forward, perhaps, in a more comprehensive way—companies that have done what Ofgem themselves said they had done. Mr Brearley said earlier that Ofgem had war gamed this. From your observation of your members, is there a wide disparity in the skillsets and prudence of people in approaching the hedging markets?

Emma Pinchbeck: The first thing to note is that of course we are not arguing for support for failing companies, but again—

Q29 **Richard Fuller:** So you are prepared to accept that a number of companies will fail, and that is fine?

Emma Pinchbeck: In any normal market, we have had companies that fail; we have had failures, as Jonathan said previously. The point right now is that we think that good, well-run companies will fail. That is a function



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of both the price shock but also market design, and why we are talking to the Government and they recognise it as a crisis.

This is a highly regulated market, so that point about well-run companies is one for the regulator. They have had access to the same data that we do. There is a 500-page supplier licence that they are in charge of. If they have had concerns about companies, those concerns could have been dealt with. Certainly, as an industry we have called for things like the supply licence review to make sure that companies are financially well run. We have been worried about things like fit and proper persons, and knowledge in the sector.

We have been worried about market distortions from the retail market, and we have made those points in public to the regulator frequently. My last point is this: it is very important that in making choices about regulatory design, we do allow innovation, new market entrants and new companies.

Q30 Richard Fuller: My question is about the hedging markets, Ms Pinchbeck, not more broadly, if I may—

Emma Pinchbeck: Different companies have different hedging strategies, but I am confident that this crisis is not one of the industry's making. It is a combination of the international price shock and our regulator market design.

Q31 Richard Fuller: Mr Brearley, do you want to come in on that?

Jonathan Brearley: I just want to come in on one point. Ultimately, companies need to make decisions on their commercial strategy. We do regulate that, but ultimately people are going to take a different—
[Interruption.]

Richard Fuller: Everything's happening at Ofgem today.

Jonathan Brearley: That is part of what happens in any market.

Q32 Richard Fuller: Mr Scorer, you have been listening very diligently. With your approach on behalf of consumers, how do you think companies have managed in their forward planning? Do you give them an A grade or B grade? Do you accept that it is a once-in-a-lifetime issue, or are you kind of furious?

Adam Scorer: I am not in the business of grading people on their hedging strategies, that is not in the interest of us.

Richard Fuller: Oh, go on!

Adam Scorer: We are seeing that, if market failure happens and a number of companies go to the wall because they are less prepared to cope with spikes, that has an issue for the structure of the market, and it has an issue for the intensity of competition and the sorts of innovative programmes or offers that come out. For consumers that I work with—low-income, vulnerable households—the cost of failure if you are with one



of those companies is pretty severe. I expect, given all of the media, that my company may well go under, and I will be part of the supplier of last resort programme. That is fine for me. I am concerned about those householders who will be trying to carry a debt repayment package with them, a warm home discount eligibility entitlement with them, and a prepayment meter exposure with them.

The more companies that have either failed because they are unhedged or are insufficiently capitalised and go under, the larger the number of consumers that get caught up, the larger the cohort of low-income and vulnerable consumers, and the more those companies that take over that customer base are going to have to have a laser focus, not just on me and my credit balance, but on debt repayment, the warm home discount entitlement and the prepayment requirements of a lot of low-income and vulnerable households. I don't think that the current arrangements have been designed for that scale and those issues. They are an occasional mechanism to ensure that nobody is left without supply. Following Emma's point, if we come out of this particular period of time and we don't learn the lessons of how market regulatory frameworks are focused on those consumers with the least agency and the least ability to intervene on markets for their own benefit, it will be a pass/fail criteria for me. Unfortunately, I know too little about hedging strategies to comment.

Q33 Richard Fuller: Can I draw you, then, on to the potential involvement by the Government to support failing energy retailers? The *Financial Times* listed three approaches: a bad bank approach, an approach that underwrites the debt of larger market incumbents for taking on loss-making customers, or where Ofgem steps in and administers a company or companies that fail. From your point of view, do any of those seem like the right approach? Are there other alternatives you think the Government should be taking, or do you not think the Government should intervene at all?

Adam Scorer: Although there was a discordant tone from the Prime Minister yesterday, what I appreciated from Government is that the imperative here is to protect consumers and low-income households from the impact of this price rise. I am afraid I couldn't tell you which mechanism would be the best in order to maintain the largest number of suppliers or underwrite the costs of those suppliers who are left in the marketplace, but the principle must be that, if the state and Government intervenes, it is to enable consumers—especially those on the lowest incomes—to come out of this with the damage limited to the greatest extent it could be. Those are all realistic options. I am afraid I do not have a preference. I would like to have seen some discussion about something else which affects both householders—customers—and suppliers. That is, how we can accelerate the paydown of severe household energy debt, which cripples suppliers and householders. In the latest estimate—this was last year or the beginning of this year—Citizens Advice was saying that over 2 million households were in debt and over 6 million households were anxious about their ability to pay for their energy costs over this winter. When you add these situations on to it, the debt challenge for suppliers



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and for customers is going to be extreme, so some element of any bail-out or subsidy mechanism that accelerates the ability to pay down the problem debt of householders would seem to address two challenges at the same time. That is what I would like to see in the Government's package of measures.

Q34 Richard Fuller: Thank you. Ms Pinchbeck, Mr Scorer has been clear on his objective but open on which of the approaches should be taken. Do you agree with the priority that Mr Scorer placed on any potential Government intervention? Do you have a preference in the options that I listed or any others for how the Government could respond?

Emma Pinchbeck: It would be good to come back to the hedging question at some point, but on the particular question of what we do in the current situation, first, I think there has been a lot of—sometimes unhelpful—speculation in the press and, frankly, the solution to this problem is in the gift of the regulator and the Government. I will not necessarily speculate on the exact solution, but I broadly agree on the priorities. The priorities are: first, to make sure that customers have secure supply; secondly, to make sure that we have a vibrant, sustainable retail sector, where this problem will not continue to happen; and thirdly, to do this in a way that is as fair as possible for customers in terms of the costs. Again, that is one of the reasons why we do need to look at retail policy. There is a cost to failure, and we have had multiple failures, so we have to ask questions about market design for our customers.

In terms of the process, to give you some very quick background, there is an existing mechanism for picking up when suppliers fail—Jonathan and I both referenced it. It was introduced in 2003, and we have never been—

Q35 Richard Fuller: Sorry, in the interests of time, please be very brief, because I have a follow-up question for you and then I need to move on.

Emma Pinchbeck: My point is, I think it is fair to say that it was not designed with this kind of price shock envisaged, or for multiple failures. The biggest problem, aside from the number of failures that may or may not happen at once, the administrative challenges of that and the number of customers involved, is that the whole sector is fragile, and it is difficult and expensive to onboard new customers. We think there could be—

Q36 Richard Fuller: Sectors aren't fragile; companies are fragile—or some companies may be fragile.

Emma Pinchbeck: The sector is fragile—

Q37 Richard Fuller: You said earlier that for companies there was no cash down the back of the sofa. What sort of responsible board of a company gets involved in supplying electricity to people who are indebted and at risk on the basis of the fact that they have no cash down the sofa if things go wrong?

Emma Pinchbeck: I think you are trying to characterise this as an industry issue in terms of the problem being badly run companies across the piece.



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Richard Fuller: I wasn't suggesting that

Emma Pinchbeck: But if we are in a situation where every single supplier in the market, whether small or large and in the market for 30 or 40 years or new to it, is making a negative return, that is a sector-wide failure; it is not the failure of individual companies. I think that is the challenge.

Q38 **Richard Fuller:** I am afraid there is a corporate responsibility on boards to act in a prudent way.

Emma Pinchbeck: Absolutely.

Q39 **Richard Fuller:** If you, as the person representing the industry, say there was no cash down the back of the sofa for a large number of companies, that implies that the governance of those companies was falling short. Isn't that a fair conclusion? I am not saying that is all companies, but surely some companies.

Emma Pinchbeck: No, I think that is not a fair conclusion. First, the regulation of the sector and the decision about whether companies are well run is in the gift of the regulator. There is a 500-page supplier licence that these companies follow. I am sure there are some badly run businesses in the sector—we usually see those fail. But generally speaking, we are talking about well-run companies who are doing their best to be efficient. But, despite all of those things in the current market design, they are not having enough money to weather the shocks. This is about whether there is additional money on top of sensible hedging, sensible planning and sensible scenario analysis to put into a situation like this one, but it just is not available.

So in the short term, absolutely we need to do what we can for customers. There will be businesses there who will be able to pick customers up; we are sure of that. There is, though, a longer-term to come back to about how much of this is less about individual companies and more about the regulatory framework that got us into this situation. How is it possible that we—

Q40 **Richard Fuller:** I think you have made that point a number of times, Ms Pinchbeck.

In the interests of time, I have a final question for Mr Brearley. With all this talk of different forms of Government intervention, are we not at risk of giving companies in the market that are working well and are effective a sort of one-sided bet, in that essentially they know that the taxpayer is going to bail them out, rather than our asking them to go back to their shareholders for investment to get through this period?

Jonathan Brearley: I want to come back to the discussion you have been having. There is a range of different businesses in the sector and a range of different businesses in different situations. There are businesses that are well capitalised and there are businesses that we expect to weather the storm we are seeing. What is different—Emma is right—is the scale of what we have seen and the scale of the change in the underlying costs.



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The work we have been doing and the discussions we have been having over the past few days are about how we adapt Ofgem's systems and processes to make sure they can manage in a world with a much faster set of exits than we would normally manage for. As part of that, one question that has been raised is about the financial capacity for companies to absorb potentially large numbers of customers.

The question you raise is exactly the right one: we do not want further intervention if it is not needed. Of course, we have to balance this and make sure that we are up to the scale of the challenge. We have to make sure that we have the conditions necessary for customers to be transferred and for companies to be able to do so. The system we used is a well-run process that we have run many times before. In the discussions we are having, all we are doing is saying, "If this changes"—and it could change very fast—"we're ready and we have all the conditions that we need in place."

Chair: May I encourage witnesses to be direct in your answers to the questions you are asked? We are running behind quite a bit.

Q41 Mark Pawsey: I want to ask Mr Brearley about his message to consumers and the message he has previously given to consumers. When the energy price cap rose in August, the advice was to shop around for a better deal. The only device that the new entrants into the market had to attract new customers was to offer a better price. There is a premise in business that if a deal appears to be too good to be true, it probably is. In the light of what has now happened, many of the deals that were available were too good to be true, because those businesses have failed and those consumers now have to find a new supplier. Do you regret giving that advice at that time, Mr Brearley?

Jonathan Brearley: If you look back over the past five years, customers have absolutely benefited from switching, and not just to get the lowest price. We have seen some companies bring incredible change into the sector, which is something we all want to see. The problem is that the change we have seen is unprecedented in scale and that has really put a lot of companies under strain—

Q42 Mark Pawsey: That may be the case, Mr Brearley, but it has left many consumers concerned about their future supply and whether they are going to be moved over to another supplier, and perhaps back to the supplier they have only just left.

Jonathan Brearley: I accept that, and I accept that this is a worrying time for customers when they see their company exit the market. But remember, every customer in the market is protected by the price cap, which is calculated to be a fair price for your energy but no more than that. We maintain that, overall, in a normal, functioning market, switching delivered huge benefits for customers. We are now adapting to the way that that costs have changed. We have to make sure that we can see the market through this and then build a more sustainable market in future.

Q43 Mark Pawsey: Mr Scorer, where do you see the priority for customers



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right now? Is it security of supply or getting a good price?

Adam Scorer: I'm afraid damage limitation is the priority for most customers at the moment. If we did not have the price cap, I would worry to imagine the impact on households this winter and the level of customer confidence in a market of any shape or intensity. The price cap is a fair-market intervention; it is not a fuel-poverty intervention. It is there to level up for those people who do not switch very often.

My charity's concern is for those people with less agency in the market or who are structurally unable to take advantage of the best deals because they do not have broadband or they do not have the confidence to do direct debits, or they may be in debt or on prepayment meters. To be honest, for us it is less about the intensity and the innovation in a competitive market and more about the regulatory backstop and the support that we provide for customers who are disadvantaged in the market and for whom the price cap—although everyone is going to appreciate it this winter—is not a sufficient response to their ability to afford energy.

Q44 **Mark Pawsey:** Will you be advising people to shop around right now?

Adam Scorer: Our advice is that if you are in debt or at risk of going into debt, make sure you talk to your suppliers straightaway, because they will arrange debt repayment with you, not out of the kindness of their heart, but because Ofgem regulation requires them to do so. We are advising people to get all the benefits to which they are entitled. Our charity sometimes increases people's incomes by multiple thousands of pounds. We see whether they are on the warm home discount and we do basic things like check their thermostat and hot water settings. To be honest, given that so many price-sensitive or price-competitive offers have left the market, I am not telling people to switch around. Unfortunately, what we are saying to a lot of people is: "Sit tight. See what happens to your supplier, but if you get switched by the SoLR process to another supplier, make sure you are having really strong conversations about your needs and particular vulnerabilities."

Q45 **Alan Brown:** Jonathan, the BBC has reported that industry sources suggest that there could be as few as 10 companies left in the retail energy market by the end of winter. Is that a scenario that you have factored in? I know you are not going to give an estimate of companies, but is that a possible scenario that you are having to look at?

Jonathan Brearley: Quite frankly, I think sources putting out numbers of companies at this time are not doing so on credible information. The situation is highly changeable. We will plan for a whole wide range of scenarios, but the Secretary of State and I sat with small suppliers only a day ago, and the message from some of them was: "Look, can we stop talking about small numbers of people being left at the end of this? There are going to be companies that are resilient through this." Right now, the situation is changing. I don't think we should be putting a number on that scale of change. Of course, we will plan for any scenarios, but my strong view is that people saying that we are going to go down to a small



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number, such as 10, simply aren't doing that on the basis of any credible evidence.

- Q46 **Alan Brown:** Okay, so you don't think that is possible, based on the evidence you have looked at. You are confident that that can't happen, based on the financial information you have assessed.

Jonathan Brearley: What I am saying is that we are planning for a very wide range of scenarios. In a sense, given the scale of change we are seeing, we are not putting boundaries on what is possible, but I don't think people can put a number on it right now.

- Q47 **Alan Brown:** Okay. Whatever happens, you have said that some companies will exit the market, and then we need to get into the supplier of last resort process. There is obviously a cost to companies from picking up new customers, which can get recovered through levies on bills. What kind of estimate are you making of what might be added to consumers' bills? What sort of time period are you going to allow for this to be recouped by other energy companies?

Jonathan Brearley: Again, given where we are right now, it is hard to put an overall figure on that. We do have a system to recover those costs, but that does take time. Those levies don't appear on bills immediately; they appear on bills after about 15 to 18 months, or even slightly longer, depending on the calculation. Remember that those ultimate costs are also based on the future of the gas price, so we have to see what happens to the gas price to see the implications that there will be for customers over time. Clearly, that is linked to the number of companies and customers that go through the process.

- Q48 **Alan Brown:** I will come to you shortly, Emma. Jonathan, some of the companies say that, because of the price cap, they will actually be losing money on new customers that they pick up. Do you think that is a credible argument? If so, how do they recover those costs? Otherwise, you are perpetuating what is happening, because that puts more pressure on the companies.

Jonathan Brearley: Part of the arrangements around the levy are focused on any costs where the price that is charged is different from what can be recovered. That is part of the discussion around what the levy payments might be. The concept behind the supplier of last resort regime is that we ask companies, "What is the minimum impact that you can have on other customers to take these customers on?" That is the process that we run.

- Q49 **Alan Brown:** Emma, you wanted to come in. Could you come in with a couple of brief comments? Is there an appetite among energy retailers to take on new customers through supplier of last resort?

Emma Pinchbeck: The short answer is that it is very challenging to take on additional customers in this market. Some of our members are reporting costs of about £600 per customer. That is both because they have to buy energy on this market at the price that gas is to supply those customers, and because it is obviously expensive to bring customers on—



the administrative process involved can be complex. Given the number of failures we may be talking about and planning for, we are worried about those administrative costs and the number of customers that we might have to be onboarding. So in short, because the market is so tight, even well-run, well-hedged, well-managed companies with significant balance sheets and all of those things are looking at this market and thinking that it will be very difficult to take on extra customers while also wanting to step up and do their bit. That is the crux of the conversation with Government.

Someone asked about solutions and the speculation in the press. I think it is fair to say that we have all identified the SoLR mechanism—the supplier of last resort mechanism—as the thing to focus on in the short term, while not losing sight of the overall market that we need to have a look at. The key point on the SoLR process right now is cash flow. It takes about 15 months to recover costs in the existing SoLR process, on top of all those factors I have already described, so it is very difficult for companies to come forward, and the proposals are all around whether we can ease that cash flow to make this easier, given the extreme circumstances we are in.

Q50 Alan Brown: You said £600 per customer as a loss if companies take them on as supplier of last resort. Is that not suggestive of massive losses that other companies are making right now if they are operating and selling on lower tariffs?

Emma Pinchbeck: As I said, well-run, well-hedged companies who know what they are doing in the retail market have been struggling for a long time to make everything stack up. That is not to say that they do not have all the governance in place that you would want, or that they are not meeting their supplier obligations, or that they do not know what they are doing. It is just challenging because of the market design and there are limits to what they can do as companies that are put upon them by the market design. We have covered that at length.

In terms of the SoLR process, yes, we are worried about losses on top of companies that are already making losses on things like capped tariffs. That is one of the reasons why I am saying that in the short term, we want to work with Government and the regulator to make sure that we have a process in place to pick customers up. That is our No. 1 priority right now. In the medium to long term, we need to look at why the suppliers find it so challenging to make money and why they are loss making even when they are doing the right things.

Q51 Alan Brown: I have one final question—this is for you, Adam. Can you estimate how many people you think are at risk of fuel poverty given the increase in prices and what effect the universal credit cut will have on people's ability to pay their bills?

Adam Scorer: To be honest, I try not to think about the increased numbers of people going into fuel poverty. There are about 4 million households across the UK, and some estimates put it at multiple hundreds of thousands—possibly 500,000—more. I do not think anyone has done

some real modelling after the price spike has come in, but it is going to be very considerable.

On universal credit, we have talked primarily about the interaction between the supplier market and the regulator. What the Government can do is absolutely critical, if you think about this not just as transactional customers, but as households who need to keep themselves and their families warm. There is a correlation between people on universal credit—about 40% of them are on prepayment meters, a higher proportion of them are in debt and many of them are unable to take advantage of the best deals in the market. So for me, it is unconscionable that it should go, to be honest. I cannot see any real rationale for it to happen currently, not just because it is an extra £20, but because the correlation between recipients and their energy use and their vulnerability to energy prices is so clear.

The next session is with the Secretary of State. Universal credit is key. We know about furlough unravelling, the national insurance contributions, inflationary pressures on food and lots of other things. Incomes will be lower for many people and bills will be higher. In addition, I think we need to look at the mechanism—the rebate mechanism, the warm homes discount mechanism—and how we can deepen that and extend it now over the winter, and that is a Government opportunity, in order that we take out some of the sting. As I said, this is damage limitation. Universal credit surely has to stay. Surely there is a way of working around the Government's commitments so that we can keep it for longer. But there is the warm homes discount as well. It is critical that everyone who is eligible for it receives it. It is a bitter irony that the £140 in the price cap rise is exactly the same amount as the warm homes discount.

Alan Brown: Thanks very much. I hear you loud and clear, but I need to hand back to the Chair.

Chair: Thank you.

Q52 Charlotte Nichols: My question is to Mr Brearly. The special administration regime has never been tested before. What are you doing to maximise the capacity of the process to manage a potentially high number of exits from the market? Do you have any concern about potential snags?

Jonathan Brearley: You are right that the special administration regime has never been used before, but right the way through and at the start of the covid crisis, when we were concerned about the capacity of companies to weather that, we worked very closely with BEIS and we war gamed a range of scenarios. We are confident that the regime will work. Clearly in a change of that scale and nature things will come up, and we and BEIS will deal with them.

Q53 Charlotte Nichols: Thank you for that. The special administration regime is expected to be used for the failure of large energy supply companies only. How would you define "large" in this case?



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Jonathan Brearley: The special administration regime was designed for when we get to a situation where the SoLR process simply isn't working. It is not just designed for medium-sized and large companies. That is what it was envisaged for, but if you get to a point where we cannot transfer companies to somewhere else, you appoint an administrator, and their job is to run the company not only in the interest of creditors, but primarily in the interest of customers. In a sense, it is hard to put a line on it because it really depends on the capacity of the market to absorb customers.

Q54 **Charlotte Nichols:** If you were to use special administration, how would you ensure that the administrator was competent to run the failed supplier at efficient cost and to deliver a good service to customers?

Jonathan Brearley: We have a set of criteria when we go out to get the administrator, and all those criteria are about access.

Q55 **Charlotte Nichols:** Mr Scorer, would you like to add anything from a consumer point of view?

Adam Scorer: The only point is about conditionality on the transfer of so many households over to others, whether that is a supplier of last resort or an administrator. The word "administrator" makes me shake a little bit because of the focus on creditors, rather than on households, so a high level of conditionality on support for low-income, vulnerable or indebted people, or those on prepayment meters, must be absolutely front and centre of any such arrangement.

Jonathan Brearley: Just to jump in on that, this is the point of a special administration regime. For anyone who is appointed, their primary duty is towards customers. We will make sure that they look after the most vulnerable customers.

Q56 **Charlotte Nichols:** Ms Pinchbeck, I see you want to add something.

Emma Pinchbeck: Your point that this has never been tested is a good one. Certainly when it was designed, I don't think we had it in mind, for example, for dealing with multiple failures that others didn't want to pick up because of the condition of the whole market. That said, it is an option that BEIS and Government have at their disposal. However, the same market conditions will apply to the special administrator as apply to the sector as a whole. It is very difficult and expensive to onboard customers at this time for anyone. Should we end up in that process, as a bare minimum, I imagine we all want the existing industry to pick up customers. First they know what they are doing and it should be cheaper for the taxpayer in the long run, but also, if we do not end up there, several of my members have said to me that they stand ready to help the Government do what they can to ensure that things like onboarding administration are done well, and to lend the expertise we have. May I echo something that Adam said—

Chair: I am sorry to cut you off Emma, but we need to keep moving on.

Q57 **Ms Ghani:** My questions are to Mr Brearley. It would be wonderful if you could keep your answers brief. This is about the energy price cap. You



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spoke about war gaming with the Department for Business, Energy and Industrial Strategy. At the moment, the energy price cap is revised retrospectively twice a year to reflect change in wholesale prices. It will rise by £139 on 1 October. What have you war gamed with the Department to tell us how that number—£139—might change again on 1 April?

Jonathan Brearley: One thing we should not lose sight of is the impact on customers' bills. We have already seen a big rise—£139 is already a big impact on household expenses. I am afraid it is far too early in the cycle to tell what the impact will be by 1 April. We have period of time in which we gather data from the wholesale market, but given the costs we are seeing change in the market today, it is clear that that cost pressure will ultimately feed through to those bills. Right now we cannot define that.

Q58 **Ms Ghani:** There must be a gap of where it might fall. Will it be below or above £139?

Jonathan Brearley: As I say, it all depends on what happens to gas prices until the end of January, and that is something we simply can't predict. Right now, it is too hard to tell, but we have seen huge changes in cost, so those have to have an impact on customer bills.

Q59 **Ms Ghani:** But you are not prepared to say that it will be less than £139?

Jonathan Brearley: It is hard to make a commitment on the size of that, given the situation in the wholesale market.

Q60 **Ms Ghani:** Okay. Moving on, the price cap was introduced to be temporary, to the point where the market can manage its own effective level of competition. Do you think the UK will ever reach a level of competition where the price cap can actually be removed?

Jonathan Brearley: We are seeing some really positive changes in the market, and we are seeing companies that have entered and, quite frankly, shaken up the way customers are thought about and served. Remember, we have got to get to a different kind of market. Emma and I have both talked about a world where, when we move to net zero, we want more flexible tariffs, and we want different kinds of services. In that world, of course, there will be a question about whether a price cap is appropriate. Right now, we need to protect customers. The one thing I want to emphasise is that, quite frankly, it is a good thing that the price cap is in place, because ultimately it is protecting customers from one of the most unprecedented price shocks that we have seen.

Q61 **Ms Ghani:** Finally, what confidence can you give us today that Ofgem is actually functioning correctly to ensure that suppliers can manage their finance, and that there is an appropriate review of the price cap going forward? I don't feel absolutely confident, because all the questions we are asking require you to speculate. You are not able to even provide a window that we can go home and give to our constituents about what future prices may be.



Jonathan Brearley: We work very closely with suppliers on their financial situation. We are in detailed conversations with a number of companies about what happens. All I am reflecting, I'm afraid, is the uncertainty, which is outside the control of this country—not even outside the control of the regulator. Our job is to manage those scenarios and make sure we can cope. The important thing is to look after the needs of customers through this. That is what Ofgem is focused on.

Chair: That brings our first panel to an end. Thank you to Emma Pinchbeck, Jonathan Brearley and Adam Scorer for your answers this morning. We are grateful.

Examination of witnesses

Witnesses: Kwasi Kwarteng and Joanna Whittington.

Q62 **Chair:** We now move to panel 2. We have the Business Secretary here in the room, and on screen we have Joanna Whittington, director general for energy and security at the Department for Business, Energy and Industrial Strategy. Secretary of State, the Prime Minister said this was a temporary issue. From panel 1 we were not really able to get an answer as to what "temporary" means. What does it mean to you?

Kwasi Kwarteng: I think "temporary" means that it is a position where price has spiked considerably. I have got a chart in front of me, and I think it has quadrupled in the last six or seven months. You would normally expect that the price would revert to the mean. It is not something we think is going to be sustainable, but of course we have to prepare for longer-term high prices.

Q63 **Chair:** Okay. We will have to wait and see. On the Floor of the House the other day I asked about the continuation of the warm homes discount rebate, following consumers' other things like their debt repayment plans, as we have heard, when they are forced to change supplier. You were not able to give a commitment, because you, understandably, said it was a fiscal issue. Has the Chancellor agreed any financial envelope for you to give to consumers yet?

Kwasi Kwarteng: I will say exactly what I said on the Floor of the House. It is a fiscal issue, but you can rest assured that I, the Department and officials are very keen to sustain the warm homes grant, simply because of the situation that Jonathan Brearley described. We have to protect customers, and the warm homes discount is clearly a very good measure to protect the most vulnerable, exposed and elderly customers.

Q64 **Chair:** When do you think the Chancellor might give you some money?

Kwasi Kwarteng: As you know, we have a fiscal event called the Budget at the end of October. All will be revealed then. We also have a spending review, so there will be plenty of data and information about that then.

Q65 **Chair:** In Spain, I understand the Government there have put a windfall tax on the generators and traders who are making very significant profits at the moment from what is happening in the gas market, in order to fund



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some of the protections for consumers. Have you considered that option?

Kwasi Kwarteng: We are looking at all options. I think what they are doing in Spain is recognising that the energy system is an entire system. I am in discussion with Ofgem and other officials looking at all options.

Q66 **Chair:** We just heard from panel 1 that the regulator, Ofgem, has known for some time that many suppliers in the retail market have been loss-making. We heard from the energy sector representative that they had been concerned about the fragility of suppliers for quite some time. How did we end up in a position wherein, in a regulated market, we knew that a number of companies were loss-making or were, in your words, not being run well—albeit with hindsight at this stage—and allowed them to continue to offer very low prices to customers?

Kwasi Kwarteng: The nature of the market in the past few years has been that there have been quite low barriers to entry. When I became the Energy Minister more than two years ago, there were 65 suppliers; I think the figure now is between around 50 and 55, depending on the outcome of the SoLR process. As I have said many times, at this time of year typically between five and eight companies exit the market. We see that frequently, and there is clearly a lot more pressure this year. We anticipated the spike in price because we could see it in the summer, which is part of the reason why the price cap went up, as Ms Ghani suggested, to £139 for this period. We have some degree of foresight, but of course we do not know the exact number of companies that may have to go through the SoLR process.

Q67 **Chair:** On the price cap, as I understand it the recent uplift is going to hit consumer bills in a few months' time, before the current spike has been factored in, so when we talk about this being a temporary issue, for bill payers this is going to run on for months and months as the market catches up with their bills.

Kwasi Kwarteng: The gas price chart shows that gas prices have been rising all year, so when the increase to the price cap was determined for 1 October—the next period—some of that price increase had been factored in because we were aware of what was going on. But you are quite right that it looks retrospectively, so you are setting the price for the next six-month period.

Q68 **Chair:** We have just had a brief conversation about the different processes that we might follow when energy companies go bust. Obviously, the protection of consumers has to be the No. 1 priority, but I agree with you that in the long term a competitive market is also important. If I was the CEO of a big energy company looking at all these market failures and the SoLR process, I would be thinking, "Great!" Because all the customers that I have lost to competitors over the years are going to come back to me and the industry levy is going to help me to pay for that. We are just going to end up in a situation in which a few big players have most of the customers again. I understand why that might be an easy option to follow, because there is an existing process, but do you worry that it will result in a very uncompetitive market? Are you therefore looking at things like a



bad bank or special administrative regimes to try to maintain longer-term competition?

Kwasi Kwarteng: Before we get ahead of ourselves and talk about SARs and bad banks, let me make it clear that competition is absolutely at the forefront of this market. I have said repeatedly in private and publicly that I do not want to go back to a cosy oligopoly in which a very limited number of companies can set whichever price they feel is appropriate. Competition has worked in the market. I was very pleased to host, with Jonathan Brearley, a small supplier roundtable. Clearly, some of the most innovative, creative companies in the sector are smaller companies. I want to kill the misapprehension that somehow the small companies are bad and big companies are good. We need a range of suppliers in a competitive marketplace.

Q69 Chair: Good. One thing that is not often mentioned in this debate is the impact on jobs—the people who work at the energy companies that have gone bust or at the fertiliser plants that were closed temporarily, although they are now going to be fired up again. Is any support being put in place to protect people who have lost their jobs?

Kwasi Kwarteng: Well we have, of course, the general support through the covid period. Jonathan Brearley talked about the various interventions we have made with BEIS and Ofgem to support people in this very difficult period. But of course my primary focus, when I was Energy Minister and now as Secretary of State, is on the consumer. Those are the people who are 100% of my focus.

Q70 Chair: So there are no discussions saying, “If the customers from bust energy company x go to company y, company y might try to give first preference to staff from the company that has just gone bust in respect of the additional jobs it might need.”

Kwasi Kwarteng: The way in which the larger company or the solvent company—whatever you want to call it—absorbs customers is always being looked at. If a company suddenly has lots of new customers, it probably will have administrative costs. It might want to hire more people, and some of those people might well be people who were working at the supplier that has gone out of business. That is a conversation that we have all the time.

Q71 Alan Brown: I know that a whole range of factors have affected gas prices and it is a worldwide issue, but equally the UK could have had a small buffer had it not allowed the closure in 2017 of the Rough storage facility, which accounted for 70% of the UK’s gas storage. How short-sighted was that?

Kwasi Kwarteng: I think the issue of storage—here I might bring in Joanna Whittington, the official—is a slight red herring, because no matter what storage you have, it doesn’t affect the global price. What is happening here is that the supply chains are being squeezed by the fact that the gas price, as I said, has quadrupled in the last six months.

Q72 Alan Brown: If that storage was surplus to requirements all these years,



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why did it function before?

Kwasi Kwarteng: Another function of storage is that, depending on who stores the gas, obviously the higher the price is, the more incentivised they are simply to sell the gas they are storing in the open market. I don't think the issue of storage is frankly pretty relevant. I would refer to Joanna Whittington on this particular subject.

Joanna Whittington: Thank you, Secretary of State. Storage plays a different role in the UK market, where we use it just to help with operational, day-to-day balancing. What we really rely on for security of supply is a very diverse range of different sources of gas—from the UK continental shelf and the Norwegian continental shelf. Importantly, there are three LNG facilities at Isle of Grain and Milford Haven, together with interconnection between the UK, Belgium and the Netherlands. Our need for storage is not the same as it is for the countries that do not have the same diverse supply.

Q73 **Alan Brown:** Okay, so anyone who expressed concerns about the loss about that storage was completely wrong at the time.

Kwasi Kwarteng: I don't think storage is really what this issue is about. I know people have expressed concerns about it.

Q74 **Alan Brown:** I acknowledge that there are wider issues, but—

Kwasi Kwarteng: No, but I am just answering your question. Storage has been made a big thing of, but I don't think it really addresses the problem that we are facing.

Q75 **Alan Brown:** Okay. If we look at storage in the wider sense of electricity storage or having dispatchable electricity—obviously, there is a reliance on gas for dispatchable electricity at the moment—you have been very clear that nuclear is one of the solutions going forward, but is it not the case that Hinkley is the most expensive nuclear station in the world? Unit 1 will not be online until June 2026 at the earliest, and there is a reported up to 15-month delay. Five of the existing nuclear stations will go offline before Hinkley comes online. Sizewell C still doesn't have planning permission and environmental permission, so it can't be constructed for at least 10 years. Surely nuclear is not the solution, and we should be looking at other things. You have said that you are in favour of pumped tidal storage. When will you look at a route to market for pumped tidal storage?

Kwasi Kwarteng: That is a great question. When I say that nuclear is the answer, clearly it is not the answer next week, because it takes time to get nuclear facilities up and running. As far as 2050 is concerned, all the modelling I have seen suggests quite a large degree of nuclear. If I had to put a figure on it, I would guess that something like 15% of our capacity could come from nuclear. You are right that it takes time to get nuclear facilities up and running. We are also looking at small modular reactors, not just large nuclear plants.

In terms of storage, you are right that we can do more. As you know—you have campaigned very effectively on this—we are looking at carbon



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capture, which is part of the energy mix. We are looking to develop hydrogen, which I know you have considerable interest and knowledge in. We should also be looking at hydroelectric power. I know that is something that you are particularly focused on.

Q76 Alan Brown: Do you have a timescale for negotiations on a possible route to market for pumped storage hydro?

Kwasi Kwarteng: I will give you an undertaking that the Department is keen to progress that. I have listened to the arguments about hydro power and storage. I think we have a storage issue, and we should look at everything we can to pursue that. All I would say about this is that, if I speak to my Norwegian counterpart, 96% of that country's electricity comes from hydro-type sources. The geography and geology of the UK won't lend itself to that degree of—

Q77 Alan Brown: That is fine, but Coire Glas is designed, has all the permissions and is ready to go in Scotland. It is actually looking at doubling the capacity at Cruachan. All that is needed is the negotiations, an agreement on price and a route to market. These projects can be delivered much quicker than, say, nuclear. That is why I am requesting that.

Kwasi Kwarteng: I think that is a good challenge. I will revert to the officials to say what our official position is on this. I have always said, from my first days as Energy Minister more than two years ago, that we have to look at a huge diversity of sources. This situation has suggested that we need to look at a wide range of sources, which we do in the UK, as Ms Whittington suggested.

Q78 Alan Brown: At the moment, if you store electricity—let's say through a battery or some other, similar technology—you are charged when you release that storage back into the grids, and you are effectively charged twice a generator. All that is required is for the Electricity Act 1989 to be changed, and the Government has been pledging to do this. I have been asking about it for four years. Can you advise on when you are going to change the Electricity Act? That would encourage the development and deployment of storage.

Kwasi Kwarteng: I think you are right. The system needs to be much more nimble. We have been saying this for years, but we really need to deliver on that—I completely agree with you. That is why one of the things I did when I was Energy Minister was to look at how we can have a much more nimble system. But I would like to bring in the official, to reflect on some of the things I have said.

Joanna Whittington: Absolutely. Diversity of supply is not just a gas issue; it is a really important part of the electricity mix. Going forward, we have a load of investments in renewables—onshore, offshore and solar technologies—alongside CCS and nuclear. But as you say, there are other things that we need in order to support that system, so the interconnectors, demand-side response and storage of electricity will provide the flexibility to give the same level of security that we have



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today, but with zero or very low carbon emissions. That is all in the context of our expectation that demand for electricity will also double in the period out of 2050, as we look to decarbonise heat and transport through their electrification. The reason that is important is that it provides opportunities for some of the retail businesses, and that is why—moving back to some of the comments made earlier—it is so important that we have a dynamic retail sector that is interested in investing in heat pumps and developing time-of-use tariffs, all of which will support our endeavour to decarbonise the energy system by 2050.

Q79 Alexander Stafford: Secretary of State, you said a lot in your statement about the work you have been doing with Norway, but what conversations have you had with your EU counterparts, rather than the EEA, about gas supply both now and for winter?

Kwasi Kwarteng: I was lucky enough to meet Kadri Simson, who is the EU Commissioner for Energy, and we discussed supply issues, we discussed security issues, and we particularly discussed decarbonisation. As far as I understand, there is an EU Energy Ministers summit today to discuss this very question, which demonstrates that this is a global issue. It is not something that is simply of interest and concern to us here in the UK.

Q80 Alexander Stafford: Obviously, there is an EU summit going on today. We are not part of that, because we have now left the EU. Does that create frictions when dealing with the EU to sort out this problem? Does it create obstructions? Are we not getting the intelligence? How is that working, if they are talking to each other?

Kwasi Kwarteng: I would say that in terms of energy co-operation, this is one area where we have very good relations with the EU. As I have said, when I was Energy Minister, I spoke to a number of EU energy ministers. I have spoken to Kadri Simson. We have been on panels, and we have very similar aspirations as far as energy is concerned. You will appreciate that, globally, the EU and countries in the EU think the same way as we do about decarbonisation. In the international forums, I find myself very much working with EU colleagues to persuade others about the need to decarbonise and the need to get to net zero, so I think the energy co-operation between ourselves here in the UK and the EU is a strong one.

Q81 Alexander Stafford: But do you think that our being outside the room when it comes to the conversation has any impact on our prices here in the UK?

Kwasi Kwarteng: What is impacting prices in the UK is the global price. Even with the best will in the world, the EU can come together but cannot actually affect what is going on in Asia or what the Asian demand is. That is really what is one of the big drivers of the gas price, so I don't think it makes a difference one way or the other whether we are in the EU or not.

Q82 Alexander Stafford: With the EU obviously reliant on Nord Stream 2, has the present crisis changed the UK's view on Nord Stream 2? I know it is only a small part of it, but obviously Nord Stream 2 is vital for the EU.



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Therefore, that might have a knock-on in the UK, so has that changed our views on Nord Stream 2?

Kwasi Kwarteng: It hasn't. We have always felt that the energy partnership that the EU has with Nord Stream 2 is something that we broadly support. I have always supported it, but I need to stress one thing: we are not exposed in the same way to the Russian gas supply as many of our EU counterparts. That is something we need to stress. Most of our energy supply is outside the control of Russia—the vast proportion of it.

Q83 **Ms Ghani:** I was just reading up on what the other Select Committee Chairs have been saying on the issue of Russia potentially controlling the supply chain. I take on board your point that we are not as reliant as the rest of Europe, but what Russia does impacts the price. The Chair of the Defence Committee has said that Russia's behaviour is an example of "grey zone conflict". We asked earlier what work was being done to forecast the actions Russia might take, and to make us resilient.

Kwasi Kwarteng: The way to be resilient, regardless of what Russia does, is to have a diversity of supply, to make sure that we can accelerate things like carbon capture, to make sure that we can really drive the hydrogen economy—which I know that Mr Stafford is keenly engaged with—and to pursue the renewable strategy that we have. The diversity of supply will protect us against any shocks to the system that may be deliberately orchestrated by Mr Putin's regime.

Q84 **Ms Ghani:** Minister, how do you respond to the term "grey zone conflict"?

Kwasi Kwarteng: I would not use that phrase; I think conflict is a highly loaded word. I would focus on what we can do to ensure that we have security of supply. Obviously, the consumer is a key priority; security of supply is another key priority; and then I would suggest that decarbonisation and the green agenda is the third metric by which we should judge our energy policy.

Q85 **Chair:** Secretary of State, your role was removed from the standing membership of the National Security Council before the summer recess. Surely, as these issues are related, you should be back on that council?

Kwasi Kwarteng: That is a question for the Cabinet Office. I think that, in many cases, one tries to streamline committees and limit the membership to people who are directly exposed to those issues. That was the decision that was taken.

Q86 **Richard Fuller:** Yesterday you said that it is not "the right thing for taxpayers' money to be injected into companies that have been badly run." Were there certain characteristics, in this context, of a company being badly run that you had in mind?

Kwasi Kwarteng: I am not going to name names or finger the blame. All I am saying is that if you look at the energy supplier market, there are lots of players coming in and out of the market. As I have said repeatedly, typically at this time of year there would be between five and eight



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companies exiting the market. Some of those companies exiting have sometimes only been in the market for maybe a year, or a year and a half. What I do not want to do is to put taxpayers' money into companies that have come into the market only to exit it after a year. I do not think that is responsible.

Q87 Richard Fuller: We can trust you to be vigilant in the protection of taxpayers' money?

Kwasi Kwarteng: Absolutely. I have said that. I have also said—and I have spoken to a lot of small suppliers—that I do not want this Committee, or anyone else, to think that small suppliers equal badly run, whereas large suppliers equal well run. There is a whole mix; large companies can be badly run, and small companies can be brilliantly run. Actually, in this market, a lot of the innovation and dynamism has been provided by smaller suppliers.

Q88 Richard Fuller: In the earlier panel we talked about the role of hedging, and the policies of not hedging markets between companies. Perhaps, there should be some consideration for there to be greater requirements on companies for hedging. However, that would have an effect on competition. Do you have any thoughts on that?

Kwasi Kwarteng: That is a really fair point, because clearly if there are going to be large hedging requirements, it requires upfront capital and collateral. A smaller business's ability to do that is more limited. I think that in any responsible business there has to be some risk-mitigation element, and clearly in this market hedging is a key part of that.

Q89 Richard Fuller: There has been much speculation in the press about potential ways the Government could intervene if they wished to. I am not going to put you on the spot now—

Kwasi Kwarteng: Why not? That is what I am here for.

Q90 Richard Fuller: May I put you on the spot, Secretary of State? Have you decided which of the approaches would be your preference?

Kwasi Kwarteng: There are a number of principles that we have established. First, the consumer experience has to be as smooth as possible. Secondly, consumers have to be protected from exorbitant prices. Within that, we have to protect vulnerable consumers. Those are our top priorities. In terms of ongoing support, the other thing I want to stress is that the industry needs to look to itself for solutions, in the first instance. What Government does, in extreme situations, is to look at measures to deal with those extreme situations. However, in the first instance the industry has to look to itself. You know where I stand on these issues. I do not believe it is responsible government to put taxpayers' money to companies to help them run. That means that I do not think we should be rewarding failure.

Q91 Richard Fuller: I don't think you have quite told us which of the options you prefer.



Kwasi Kwarteng: You have not told me what the options are. I don't know what you know.

Q92 **Richard Fuller:** Only what I have been reading, Secretary of State. There are options of a bad bank approach, subsidising the transfer of customers through a temporary period, or having Ofgem take on a more significant role.

Kwasi Kwarteng: I want to stress this. I think the SoLR process and the SAR process, which hasn't been tested yet, are robust. As Jonathan Brearley said, throughout the covid process and all through covid, I was the Energy Minister, and I was in regular contact with Jonathan—up to two or three times a week—discussing this very situation. At the time, we felt that there would be a real challenge to energy companies, which, thank God, didn't happen. The system and the companies were more robust than perhaps many of us anticipated in March last year. I think that the SoLR process and the SAR process are robust. I want them to be tested. I don't think we need to go beyond them, as far as I can see. However, we are also planning for other contingencies; that is what a responsible Government does.

Q93 **Richard Fuller:** One final question from me, Secretary of State. It goes to the issue of the responsibility of the boards and investors of companies that might be going through difficult times. In the earlier panel, the representative of the industry made a comment that for some companies there is no cash down the back of the sofa. You have just said that you feel it is important for companies to step up themselves first before taxpayers. What is the message you would send to the directors of those companies at this stage about where they should be looking first?

Kwasi Kwarteng: I think they should look to their own resources and look at their own business models and management, because it cannot be right for companies that have entered the market recently and are now essentially in difficult times stretching out a hand for taxpayers' money. I don't think that is right. I ask the industry to look to itself to support itself. I think it can do that. I think there are some very good companies out there. I also feel that the structures we have now are robust.

You will have seen reports of some of the industry players saying that we should remove the price cap. I absolutely rebuff that. The price cap is here to stay. We are not moving it, and they have to work within that context. What really surprises me is that, I know companies who went into the market when they knew there was a price cap, and now they are complaining about the price cap. It is a very odd situation if you are starting a business to go in with your eyes open and then complain about a key feature that was there when you entered the market.

Q94 **Mark Jenkinson:** Secretary of State, we have talked about the SoLR process officially a number of times. It has been reported by industry sources that we might be down to 10 suppliers by this year. The costs of the SoLR process are borne by all utility users as they are socialised as a levy on energy bills. If that scenario does play out and we end up down to



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10 suppliers, have you got an assessment of the overall cost and the cost to the consumer?

Kwasi Kwarteng: I have been asked this repeatedly in the media, the morning round, the radio—about this 10-supplier figure. I don't know where that came from. I think it was maybe associates from Baringa, an energy research firm. I don't see how they got to that figure. I would be very surprised, frankly, if we got to that figure. I am not here to comment on numbers, but I want to see a competitive market. A wholesale collapse or exiting of the market of that nature would severely reduce competition. That is not what I am anticipating, and it is not what I see.

Q95 **Mark Jenkinson:** Is there potential to allow the costs to be recouped? We recognise that every year a number of suppliers exit the market. Is there potential for allowing the cost of that to be spread over a longer period for consumers? Is the Department doing any work on things like that?

Kwasi Kwarteng: Generally, in the SoLR process, what happens is that the cost of absorbing the customers in the first place falls on the company that is absorbing the customers. The cost is mutualised, as we call it, across the sector. That is the SoLR process. As I have said, so far the SoLR process has proved to be pretty robust. That is what in the first instance we are going to continue to do.

Q96 **Mark Jenkinson:** Do you have any assessment of the financial health and viability of the remaining suppliers, and the risk of a domino effect should we end up with the SoLR process for a number of suppliers this year?

Kwasi Kwarteng: In any market there is always a risk of what they call contagion, and typically one could see that in the banking crisis, for example, in 2008. I think that risk is very low, but in all markets there is a risk of that. Obviously, one of the reasons I speak to Ofgem is to try to prepare us for an extreme situation like that, but I don't see that happening this year.

Q97 **Mark Jenkinson:** Is there is a willingness among the remaining suppliers to play their part in the SoLR process? Are you having an ongoing discussion?

Kwasi Kwarteng: I think there is. If you look at the structure of the market, you have a market with let's say 50 suppliers—maybe more—and there is a sense in which if you can expand your market share, and you are a well-run, solvent and liquid company, you would take advantage in many instances of expanding your market share. That is a normal market mechanism.

Q98 **Mark Jenkinson:** You talked about vulnerable customers being a priority. Are we confident that we are protecting the warm home discount in the event of the SoLR process, that existing repayment plans are honoured, that new suppliers are flexible with repayment plans for those customers who have debts, and that those on prepayment meters will have their credit balances protected and transferred quickly?



Kwasi Kwarteng: We are very focused on this. In fact, in one of the roundtables that I hosted a couple of days ago, the issue of prepayment customers was raised. There was almost universal agreement among the panel at the roundtable that we should be protecting those customers. As Mr Scorer said in the earlier panel, there is a high level of correlation between people who are on prepayment meters and those who receive universal credit. I am very conscious of that, which is why I want to protect them in this energy squeeze.

Q99 **Mark Jenkinson:** Similarly for small business customers with credit balances—are we confident that we can quickly transfer some of those?

Kwasi Kwarteng: Yes, I think there is similar protection. Obviously, they do not have a price cap in the way that retail consumers do, but there are lots of ways that we are trying to soften the impact of high energy prices, not only on small businesses but across the economy generally, particularly in industry and other businesses.

Q100 **Chair:** I am conscious that things are moving quickly, but on some of those questions about the warm homes discount—I know we need to wait and see on that—and on debt repayment plans and meter key credit status, none of it feels very firmed up yet. If our constituents are watching this discussion today and are worried, they will want to know what will be put in place to protect those support measures when they have to change energy supplier. When will we be able to give them that comfort?

Kwasi Kwarteng: As you say, it is a fast-moving situation. In many ways I feel that we are running ahead of ourselves because from what we have now, the SoLR process is working, and the SAR process that we have in place has not even needed to be used. There is a danger that we are essentially talking ourselves into a panic—it is a kind of self-fulfilling prophecy and I do not want that to happen. I think we are managing the process. In extremis, people will be protected, even though for now I cannot give chapter and verse details. I will turn to Joanna Whittington, to see whether she has any further comments on that key focus of protecting the vulnerable.

Joanna Whittington: It is already the case that credit balances of domestic consumers are protected through the SoLR process. Small businesses tend to manage their credit balances more tightly anyway, but they also tend to be honoured through the SoLR processes that we have seen to date. This is a question for Ofgem and its regulation of the supply businesses, and of how they maintain the same level of protection for vulnerable consumers. It has made a number of changes to the way the supplier licence works to protect against poor customer service and financial instability. Those new requirements came into place in 2019.

Q101 **Chair:** We have heard today about war gaming and scenario planning from the regulative industry. I would suggest that it would be good to have a bit more confidence around the war gaming into how we protect consumers, in addition to how we protect supply and administer failed companies.



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Kwasi Kwarteng: We have set out the SoLR process very clearly. We have said that it has been working over the last few years. We have set out the SAR—

Q102 **Chair:** Consumer protections—that was the question.

Kwasi Kwarteng: Well, you did mention protecting suppliers. Ms Whittington suggested that the consumer balances are protected as well now. I am sorry that we have not given you as much detail as you would like, but there are lots of things that we are doing now as well as structures that are here now which protect consumers in the way we all want to see.

Q103 **Chair:** It would be useful to have a list of the protections that are currently protected when a customer changes energy supplier and those that are not, and whether that is a decision for the energy company, the regulator or your Department. It is still not giving the confidence that people will want.

Kwasi Kwarteng: Okay, thank you.

Q104 **Mark Pawsey:** Secretary of State, I wonder if we could go back a stage. We know that stability of price and continuity of gas supply are essential to both consumers and businesses across the UK. It is a key part of your Department's work. You have a very big Department, with many thousands of civil servants horizon scanning and checking all of those things. Why didn't we see this coming?

Kwasi Kwarteng: As I have said, Mr Pawsey, in a way we did. There was a conversation about the energy price gap earlier, and there was a reason that it was set higher for 1 October than before.

Q105 **Mark Pawsey:** Did you expect us to be in the situation we are in now?

Kwasi Kwarteng: I did not predict that gas prices would quadruple in five months. However, we have structures in place that deal with extreme situations, and now those structures will be tested. That is why we are here talking about possible contingency plans and why Mr Fuller is reading about those in the newspaper. I reject the idea that it was somehow completely unexpected and that we were completely unprepared.

Q106 **Mark Pawsey:** But what work does your Department do to anticipate events such as this? We are investigating this enormous price hike, with concern about supply and supply failure. Why didn't we know about it earlier? Why weren't we able to take earlier action?

Kwasi Kwarteng: As I have said, there were elements that we did know about. The failure of an energy supply company can be dealt with through a supplier of last resort process, so we have set that up. That is what is being used at the moment. The special administration regime that we have talked about is set up precisely in the event of something that has not happened yet.

It is not fair to say that this somehow just happened and that we were completely at sea. There were other elements, in particular with the CO₂



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situation, that were more novel, but again we solved that problem—we are dealing with it in real time. I agree that there were perhaps some elements that we were more surprised by. However, there is a regime, there are structures to deal with distress in this market, and they are being tested now.

Q107 Mark Pawsey: We heard in the earlier session about the exceptional nature of the circumstances that have arisen. They are unprecedented, but the special administration regime has never been used. How confident are you that it will work, given that it has not previously been tested?

Kwasi Kwarteng: As Jonathan Brearley said, we stress-tested a lot of this in the covid period. You will remember that we were effectively in a series of lockdowns for more than a year, and there was real stress in the energy market. I was the Energy Minister, and I had weekly calls with Jonathan; we used to speak all the time. We talked about those very issues.

The fact that the SAR has not been tested is a good thing, because it means that a large supplier has not exited the market. Time will tell whether we need to use it. It is like complaining that lifeboats have never been used—that is a good thing, because it means you have not been in danger.

Q108 Mark Pawsey: But you are happy that the existing measures will do their job?

Kwasi Kwarteng: As Jonathan Brearley said, I think that the SAR is robust. Only real experience will test that but, as far as I can see, it is a robust regime. As I have said, we have structures in place to deal with the very extreme scenarios that, thankfully, have not happened yet. However, we could deal with those extreme scenarios should they arise.

Q109 Mark Pawsey: Do you think there is a likelihood of them arising?

Kwasi Kwarteng: Personally, I think we will be able to withstand this, but my job is not to be a soothsayer or crystal ball gazer; my job is simply to prepare for all eventualities, and that is what we are doing.

Q110 Chair: Why do you not like the bad bank option?

Kwasi Kwarteng: We can talk about nomenclature, but as people have said repeatedly, we have the special administrative regime. That has not been tested.

Q111 Chair: Can that be used, though, if there are multiple companies that have gone bust and they are pulled together?

Kwasi Kwarteng: As Jonathan or Emma Pinchbeck said in the earlier panel, it can be used in a situation—I think it was Jonathan who said that. He said it was not just about one particular company; it can be used if more than one supplier fails. But to say, “Oh, well, you don’t know how it’s going to work because it hasn’t been tested”—it is a good thing that it hasn’t been tested. It is a good thing that we have not been in a situation



where we have needed to fall back on it, but it is there should that need arise.

Q112 Chair: My understanding at the moment is that a supplier is not allowed to have more than 25% of the market, for competition reasons. If, through the SoLR process, a particular supplier goes above 25%, are you going to give them an exclusion from the competition rules?

Kwasi Kwarteng: That is a very good question. Looking at the—
[*Interruption.*] Yes, I will answer it, and I will answer it in this way. In an extreme case, the lowest figure we have heard is that there will be 10 companies. I do not think that is anything near the truth, but in a scenario where you have 10 companies, it is difficult to see one having 25%. It could happen, but I would definitely cross that bridge when I came to it. Also, the competition rules are the competition rules, so I think it would be very difficult for a Government simply to abrogate those.

Chair: Very good; thank you.

Q113 Judith Cummins: Secretary of State, we have seen emerging threats through this energy crisis. We have seen the importance to the UK economy of just two fertiliser plants, we have seen threats to the security of our food supply, with threatened empty shelves, and we have seen the possible impact on the NHS. Were you aware of these threats to our economy? What contingency plans did you have in place?

Kwasi Kwarteng: We were aware of supply chain shocks. With regard to the CO₂ situation, it was abundant and it was very cheap, and a lot of people, I think, were probably surprised at what happened. All I would say about that is that we very rapidly dealt with that situation. I met the CEO of the relevant company twice, on Sunday and on Monday—once each—and we have come up with a solution, which I have to stress is very much short-term support. There is no question of us essentially writing a cheque for this to this company indefinitely. I think the CO₂ issue was something that people were surprised at, but we are dealing with that critically at the moment.

Q114 Judith Cummins: To continue on the theme of security, your earlier comments seemed to imply that we do not need storage in this country because we import so much of our gas from abroad. Were you aware of the complete lack of storage in the UK? I am looking at the figures from *The Guardian*: the UK has 8 TWh of gas in storage, Italy has 165.8 TWh of gas in storage, and Germany has 146.5 TWh—

Kwasi Kwarteng: Yes, so—

Judith Cummins: I am not finished, sorry. Does this impact our national security in terms of energy?

Kwasi Kwarteng: As Ms Whittington suggested, the reason why we are less reliant on storage is that we have a wider source of energy supply. Storage in this instance refers to natural gas. We are less dependent on natural gas than many of those other countries that you have mentioned, simply because we have a greater range of electricity supply, for example



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in renewables. What we are trying to do—the way to get more security and more resilience—is to diversify the source of electricity.

My other point about storage was that storage is all very well, but it does not actually affect the global price. The reason why a company like CFF was in trouble was that the price of the natural gas was £900 a tonne, and the price of the product—the ammonia and the carbon dioxide—was a lot less than that. Storage is not going to help you in that situation, because all that will happen is that the people storing it will sell it at the market price, which will be higher, and of course the longer the market price stays high, the less the storage can mitigate that. I think it is a legitimate debate to have, but I do not think it is actually that relevant to the issue of resilience.

Q115 Judith Cummins: I did hear your previous comments, when you said that it was not particularly relevant, but Secretary of State, people out there will be thinking about protecting our national energy supply and that diversifying your supply to depend on countries from abroad is not particularly appealing at this time. We worry about our own national security, but I want to move on to the last week, where I understand that Government have been making frantic calls to energy companies in order for them to take on customers of now defunct energy companies under the supplier of last resort process. Would this suggest that the Government lack a process for dealing with this in a timely and managed fashion? I am trying to get to why there were frantic calls, Secretary of State.

Kwasi Kwarteng: They weren't frantic calls.

Q116 Judith Cummins: Is it planned or is this a failure of Government or a failure of the market, or is it failure of both?

Kwasi Kwarteng: What you call "frantic calls" are, to me, absolutely necessary. I am not ashamed of the fact that I spoke to 12 suppliers in a row on Saturday from my house. I am not ashamed of the fact that I have spoken to Jonathan Brearley, the chief executive of Ofgem, more than probably three or four times in the last two days. I am not ashamed of the fact that I am relentlessly trying to engage with the industry. These are not frantic calls; these are calls to gather information so that we can actually proceed.

I have said repeatedly in the course of this session that we have structures already in place in the supplier of last resort process and the special administrative regime. Some people say, "Well, it's not been tested yet". It is a good thing that it has not been tested yet. We already have these structures in place.

On natural gas, I just want to stress that we are not relying on imports. In 2020, 50% of the natural gas that we used was from the UK continental shelf—it was from the UK. Thirty per cent. of it was from Norway, and I spoke to the Norwegian Energy Minister on Monday and they are going to increase production as of next week, 1 October. And then 18% is LNG and 2% roughly is from the interconnector, so it is a misapprehension to say



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that we are simply importing all of this stuff from abroad. As I said, last year 50% was from the UK continental shelf.

Q117 Alan Brown: Secretary of State, you have said that the gas crisis shows that the UK is still too reliant on fossil fuels. We touched on some technologies earlier, but what are your plans to increase investment in non-fossil fuel technologies to support renewables, and how are you looking at how that will affect bills? At the moment, roughly a quarter of electricity bills are made up of levies, so is that going to be managed while managing this investment in renewable energy?

Kwasi Kwarteng: In terms of the energy mix—the generation mix—I need only to point you to the Prime Minister’s 10-point plan, which came out in November last year. The first was about renewable wind, which I know Scotland has a great stake in, in terms of offshore wind. The second was about trying to develop the hydrogen market. We have mentioned nuclear, which is the third. One of the points is about carbon capture and I know that you are a great champion of Acorn as a potential site.

Q118 Alan Brown: Will that have the go-ahead in the first two clusters?

Kwasi Kwarteng: Yes—

Alan Brown: Oh.

Kwasi Kwarteng: No, I’m not saying—sorry, I didn’t hear your question. I thought you said, “Acorn is a good thing,” and I said “Yes.” I didn’t realise what exactly you were asking. But this range of supply is a really good thing and that is one of the things that we can get security from.

Q119 Alan Brown: What about wave and tidal? Are sufficient plans in place to allow these to get to market and to scale up? I know they are allowed to bid, technically, in the next contracts for difference auction, but there are not enough protections to allow them to be successful, it would seem—to come in at a small scale and then scale up—so how are you going to address that?

Kwasi Kwarteng: I made some earlier comments about Nord Stream. Our position is that we are not enthusiastic about it and we do not support Nord Stream 2—I needed to clarify that—but we are looking to work with Germany and other partners to try to mitigate, or deflect, Russian aggression. I wanted to be very clear about that.

I am going to answer your question very broadly. Issues of security supply are really important, but I think—I know you support this—that moving away from fossil fuels is actually a real strength for the UK, and for people in Scotland and across the UK. Not only does it give us a huge opportunity in terms of employment; it also gives us more security because we are not as reliant on fossil fuels, and natural gas, as you know, is ultimately a fossil fuel.

We are in agreement about that, and we should try to celebrate that and convince a wider section of political opinion that the decarbonisation agenda is really important.



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Q120 Alan Brown: I agree with you, hence why I ask about wave and tidal, and I asked earlier about storage. I am all in favour of greater onshore and offshore wind. As we move towards a renewable energy mix, is it right that Scotland has the highest grid charges in Europe? Surely the grid charging regime needs to be addressed to facilitate the deployment of renewables.

Kwasi Kwarteng: The transmission charges that Scottish generators pay is something that I am in constant conversations about—not only with Scottish offshore wind operators, but with Ofgem. Specifically on tidal, we have an auction round and we will have to wait and see in the SR where we are with that. It is part of an ongoing conversation.

Q121 Mark Jenkinson: On the diversity of supply, I welcome all the announcements on renewables, but Scotland has the lowest grid carbon intensity in the country—down to single digits most days—but north Scotland can switch from 90% wind to 90% nuclear at the drop of a hat, because when the wind stops blowing—

Kwasi Kwarteng: It can flip, absolutely right. Alan Brown does not like nuclear by the way.

Mark Jenkinson: I know—that's why I make that point.

Alan Brown: It's a hint I've dropped.

Q122 Mark Jenkinson: Some 50% of our peak load is baseload, so I would like to see the 15% nuclear very much increase. I suppose the question is: has this crisis focused minds a bit more on energy resilience, and on where we are heading with net zero and renewables?

Kwasi Kwarteng: You are absolutely right about the focus on energy resilience. I am increasingly of the view that the issue of decarbonised baseload is critical. If the question is, "How can we get decarbonised baseload without nuclear power?", I do not know what the answer is. Nuclear is an essential part of a decarbonised energy system. That is why, within Government for the last two and a half years, I have been very supportive of it—and not just large-scale nuclear, but small modular reactors as well. We need to be able to do both.

Q123 Alexander Stafford: Secretary of State, I just want to pick up on what you said on Nord Stream 2, because obviously I asked about it before. I just want to clarify. My question was: has the current crisis situation changed the Government's approach?

Kwasi Kwarteng: No, it has not. I just want to be clear about that. Clearly, it is an issue between the people who are affected by it—that was the point that I was trying to make—but our position of scepticism has not changed.

Q124 Chair: You mentioned earlier the support that has been put in place for CF Industries to get production going again. I think that is just for three weeks. What do you think is going to change in four weeks' time?



Kwasi Kwarteng: That is a very good question. In a critical intervention like that, you have to have a way of exiting the arrangement. It is not a case of just trying to nationalise it or of supporting it indefinitely. That is why, in the critical period, we needed to have a short-term arrangement. I am confident that we can get other sources of CO₂ in that period. There was an immediate crisis and the deal that we reached solved an immediate problem.

Q125 **Chair:** In the first panel, there was a lot of discussion about this period of time, highlighting the need for a broader reform of the energy retail market. Do you agree with that?

Kwasi Kwarteng: The energy retail market has evolved incredibly over the last 10 years. As I have said, small companies have driven a lot of that innovation, so I want to see competition. But there are issues such as how easy it is to enter the market, and whether it is sustainable to have, even in normal years, five to eight companies exit the market and essentially absorb administrative capacity in the SoLR process. Those are legitimate questions that we need to answer, but of course for the moment I am absorbed in dealing with the present situation. That is why I, the regulator and other companies are having roundtables and talking about how we can address the immediate problem.

Q126 **Chair:** No decision one way or the other yet, but maybe we will come back to that.

Kwasi Kwarteng: Yes, I am sure we will have other sessions when we can talk about the future of the energy retail market.

Q127 **Chair:** We have talked a lot today about power generation from gas, but of course it is used predominantly in heating. Is there any light of day on the heat and buildings strategy?

Kwasi Kwarteng: I knew you were going to ask me that. I was amazed that you had not asked me that already. I am going to give you the answer. It has got to come out soon, right.

Chair: It does.

Kwasi Kwarteng: We have been saying that for six months. I am very keen to see it published. I have read many drafts of it. I want to get the debate moving forward, and publication would help that.

Q128 **Chair:** It would. What is holding it up?

Kwasi Kwarteng: These are delicate issues within Government. We are having conversations about the exact best approach to decarbonise buildings. It is a much more challenging problem than decarbonising power generation, but I am finally confident that it will come out soon.

Chair: Very good.

Q129 **Ms Ghani:** I have a question about COP. Secretary of State, you have talked about all the work you are doing day in, day out to deal with what is, in effect, a global issue and how you respond to it here. Basically, we



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are talking about subsidising CO₂ production, restarting coal and increasing gas supply. If we are talking about global issues, we have COP here in a few weeks' time. How are we and other countries taking these steps going to be able to justify our stand when we are meant to be promoting the reduction of CO₂, stopping coal and reducing gas consumption? There seems to be a huge contradiction about to take place at COP.

Kwasi Kwarteng: That is what I have tried to stress in this session. I have repeated this, and Ms Whittington has backed me up. The answer to resilience is diversifying our energy supply away from fossil fuels. I have never said that we need more gas. I said that we need security of supply, and that we need to develop other technologies. I have talked about nuclear, renewables, better storage and hydro power—all sorts of things. That is the answer. When it comes to COP26, we will say that we want to decarbonise. We haven't mentioned coal once in this whole session. Ten years ago, we would have been talking a lot about coal. I was in Parliament when 40% of our electricity generation came from coal-powered stations, and Richard Fuller was here as well in those dim and distant days.

Richard Fuller: I am very old.

Kwasi Kwarteng: But the point I am making is that we have made a huge, successful transition, and that is exactly the kind of thing that we are trying to push across the world. At COP26, we have a thing called the Powering Past Coal Alliance, which is successful—more and more people want to join it—and we have a message.

The last thing I would say about COP26 is that there are good noises about climate finance. It was very interesting to read what President Biden was saying this week about an increased US commitment to a climate fund, which we agreed to in Paris, as you remember, to help developing countries make that energy transition.

Q130 **Ms Ghani:** So there is absolutely no contradiction between our position today and what we will be promoting at COP?

Kwasi Kwarteng: In my evidence here, I have tried to say that the answer is through better provision across wider sources of energy. It is not simply about increasing gas supply, which I don't think makes sense. One of the things that we have also mentioned is carbon capture. If you are using facilities to capture carbon, it doesn't make sense to use them to store natural gas, because the whole point is that you are breaking down the natural gas and storing the carbon dioxide. That is what I am trying to say. I am trying to look forward to a greater use of renewables and new sources of power.

Q131 **Alexander Stafford:** Some organisations have made a lot of money out of the gas crisis. At the same time, consumers' bills are increasing and will increase. Why has the Government ruled out a windfall tax to try to help taxpayers?



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Kwasi Kwarteng: I am not a fan of windfall taxes, okay. Let me just get that straight. But of course, it is an entire system, and we have to think about how we can get the energy system as a whole to help itself.

Q132 **Chair:** Thank you. I am sure this is the start of many conversations over the coming months. I am grateful to you and your team.

Kwasi Kwarteng: Thank you very much. It was a really interesting conversation. We also have an Energy Minister, who is new in post, and I am hopeful that you can be introduced to him. I am sure he will not thank me for this, but he will very much look forward, in due course, to answering some of your questions if I, for whatever reason, am unavailable.

Chair: We look forward to welcoming Minister Hands to the Committee. Thank you, Secretary of State and Joanna Whittington.