HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Energy pricing and the future of the energy market, HC 1130

Tuesday 8 February 2022

Ordered by the House of Commons to be published on 8 February 2022.

[Watch the meeting]

Members present: Darren Jones (Chair); Tonia Antoniazzi; Alan Brown; Richard Fuller; Ms Nusrat Ghani; Mark Jenkinson; Andy McDonald; Charlotte Nichols; Mark Pawsey.

Questions 1 to 142

Witnesses

I: Jonathan Brearley, Chief Executive Officer, Ofgem; Neil Kenward, Director of Strategy and Decarbonisation, Ofgem; Neil Lawrence, Director of Retail, Ofgem.

II: Peter Smith, Director of Policy and Advocacy, National Energy Action; Jonathan Marshall, Senior Economist, Resolution Foundation; Stephen Fitzpatrick, Founder, OVO Energy; Emma Pinchbeck, Chief Executive, Energy UK.

Examination of witnesses

Witnesses: Jonathan Brearley, Neil Kenward and Neil Lawrence.

Q1 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee for our hearing today on energy bills and the future of the energy market. For our first panel this morning, I am delighted to welcome Jonathan Brearley, CEO of Ofgem; Neil Lawrence, who is the retail director from Ofgem; and Neil Kenward, who is the director for strategy and decarbonisation. Welcome to all three of you this morning.

Mr Brearley, just to you first, I would be interested to hear your views on the narrative that, in a similar way to the financial crisis when the banks went bust and required taxpayers' money, with the energy crisis right now 29 companies have gone bust so far, with, as I understand it, £2.5 billion being loaded on to consumers. Is this not a failure of Ofgem to effectively regulate and supervise the energy market?

Jonathan Brearley: Let us look back at the root causes of this crisis. We have seen an unprecedented and extraordinary scale in change in the wholesale gas market. We cannot historically find a change that has had the pace, the scale and sustainability that we have seen. Gas prices across winter are five times what they were last year, for example.

First and foremost, that has led to a huge rise in customer bills. I know that the announcement we made last week of £700 is extremely worrying for customers. I spend a great deal of my time talking to customers. I talked to them directly, before we made the announcement, about the impact on their lives. I know this is coming at a time when they are facing other much bigger financial pressures at the same time. This is a combination of things we know will hit customers hard. Equally, as you mentioned, we have seen 29 supplier exits since the start of the year. We know that has affected around 4 million people. We need be clear: as a regulator, I hope we never have to go through either of those two things again.

When I look at some of the other root causes as to why this is the case, it is clear that, first of all, we had to focus on protecting customers. We made sure that customers were on supply. We made sure that credit balances were protected. We also know that our regulation needs to change. I would just like to highlight three big areas that are partly about our regulation but partly about our approach to regulation overall.

First of all, the price cap has worked. It protected customers across winter and, if you look back at its history, it has made sure that customers are paying no more than they need to for their energy. Without doubt, it is going to have to become more flexible and more adaptable now that we are in what is quite possibly a more volatile energy market overall. We have already put forward a set of reforms that we think will make that difference and we are happy to expand at this Committee.

Equally though, financial regulation needs to be tougher. We need a retail sector that is more resilient and more able to deal with the kind of shock that we have seen. To be clear, we accept that, had we done that earlier, this would have been better for customers.

Finally, I want to talk about culture and the way the regulator has worked with the sector and others in this area. It strikes me, when I look back across our history of decision-making, that the relationship between Ofgem and retailers is quite different to the relationship Ofgem has with other parts of the sector, for example networks. We are going to need to work more closely and more collaboratively in the way we shape not only our financial regulation but our regulation of the sector overall.

If we are moving, as I suspect we are, to a sector that is less reliant on switching as the only mechanism to drive up performance and to manage price, we will need to form a different kind of regulation. That is something that will need to involve much more closely the retailers themselves, consumer groups and other stakeholders to make sure we shape that in the right way.

If I were to strike an optimistic note, I would say that coming out of this crisis, accepting all of the challenges this has posed for the country, we could build out of this a retail sector that is suitable not only to manage these problems but to get us closer to our net zero targets in a cost effective way.

Q2 **Chair:** The increase in wholesale gas price is an obvious problem, but in terms of the issues you have raised around a closer working relationship with energy companies, financial resilience in energy companies and issues around consumer credit, surely these things could have been done without there being an energy crisis in the first place. Why have they not been done already?

Jonathan Brearley: When you look back at the history of Ofgem's decision-making, let us just take the financial resilience as an example. Without doubt, there was a consensus, which Ofgem was part of, that we needed to diversify the market. When I look back at the history of our decision-making, particularly in the mid-2010s, it was clear that was the number one priority. What happened at that time is, when representations were made, the priority was given to getting smaller suppliers into the market. Therefore, some of the measures that were put forward were not implemented at the pace or the scale that, with hindsight, we needed.

Without doubt, there was a perspective at the time that we needed to diversify the market and challenge the dominance of the big incumbent companies. Just to say, that was not just Ofgem; that was the CMA and others, and that is what dominated thinking at the time. It is my view that we should have combined that with greater financial resilience.

If I were to highlight three strategic points: first of all, when we opened the market it would have been better had we had higher barriers to entry then. Secondly and most importantly, the introduction of the price cap, which introduced a different dimension to this market, which, as I am sure we will come on to, means that the costs of failure are much higher because we need to make sure that everyone gets access to energy at that price cap level. Thirdly, clearly after Covid, although we did move, we could have moved further than we proposed in the regulations that we put in place.

Q3 **Chair:** Let me just touch on some of those. First, on consumer credit, you said, "We wanted the market to be competitive so we were not as tough on financial resilience in some of the financial regulations as we needed to be". I understand that, in the price cap increase that was just announced, £54 million was included to cover lost consumer credit from companies that had gone bust. That only reflects about 15 of the companies that had gone bust at that point. We are already double that now, nearing 30. I think it was the CEO of Centrica who said that he thinks about £400 million of consumers' money has gone missing as a consequence of these companies going bust. Is that right?

Jonathan Brearley: I do not think that it will reach that level, from the figures that we have.

Q4 **Chair:** What level do you think it will be?

Jonathan Brearley: At the moment, in the settlements we have made so far, it is about 3%. This is not a firm estimate, but we think that may rise to about 10% of the overall level.

Q5 **Chair:** What does that mean in real money from consumers?

Jonathan Brearley: That would be about £7 out of the existing settlement, maybe rising up to £10.

Q6 **Chair:** At the moment, it is £2.45 and that amounts to £54 million. If you think it is going to be £10, you are thinking it might be £200 million.

Jonathan Brearley: It is something like that. Those figures are not figures that we are finished with. We are still going through those, but roughly of that order of magnitude. The vast majority of the cost has been down to re-hedging people when they moved from a failed supplier to another supplier. That is about 85% of the cost that we are seeing.

Q7 **Chair:** Why was consumer money not ring-fenced so that companies could not spend it on other business costs?

Jonathan Brearley: We had a proposal, which was already in train, to ask suppliers to return their credit balance to customers every year, which would have managed that cost. That was already being implemented, but it was not finalised. Again, when I look back at the arguments that were made, the argument was that this would make it very hard for small suppliers to operate. As I say, if you go back through our history, there was a view that we needed to encourage small suppliers into the market.

It is our view that we do need to ring-fence those credit balances further and we are looking at mechanisms to do that. The complexity, and the thing that we are working on right now, is that if you are going to ring-fence them, we want to make sure that ring-fence is insolvency-protected. What you do not want to do is ring-fence customer balances and then find that just gets washed up in the general form of an administration. That is what we are working on now. We are bringing forward proposals next month.

Q8 **Chair:** You started the discussion on ring-fencing consumer credit in March 2021. Why could it not have happened sooner? Why did it wait for the energy crisis for this to come forward?

Jonathan Brearley: We had proposals out in consultation. There is a set of very mixed views on ring-fencing. We were seeking views on what was a proposal that would force companies to pay back customers every year, which would have reduced that ring-fenced amount. It was simply the process of consultation, and that does take time.

Q9 **Chair:** Presumably the energy companies did not want to ring-fence it because they wanted to use it as working capital.

Jonathan Brearley: Some did. Some did not. There were also views from customers. The proposal we had out there that you return money back to companies was actually quite controversial amongst customers as well as amongst companies.

Q10 **Chair:** Do you think that it is right that consumers should have to pay back around £200 million, through their energy bills, of their own money that has gone because of the bankruptcy of energy companies that were not regulated properly?

Jonathan Brearley: We should ring-fence customer credit balances more firmly. I agree that, with hindsight, we should have ring-fenced customer credit balances more firmly.

Q11 **Chair:** I mean, the recovery is now. In the price cap, consumers are having to pay back the money that was essentially their fellow consumers' money that was lost when companies went bust. Is it right that goes on energy bills, or should it come from somewhere else?

Jonathan Brearley: Ultimately, the system we have means that the only place we can recover these costs from is energy bills. Overall, the proportion is very small. As you say, it is about £2.40 now. The majority of the costs that have come through the SoLR process really are around re-hedging suppliers to keep people on energy at the price cap.

Q12 **Chair:** I understand that energy companies already had to provide some form of financial reporting to you as a regulator. Could you just explain that? Was that a frequent reporting or was it an annual reporting? How did that work?

Jonathan Brearley: After Covid, we had very frequent reporting of financial information. Over time, that ramped up. When we saw that gas prices were rising in July last year, that then began to include quite detailed information about hedging. Now it is weekly. Every week, we get information from companies about their hedging position and about their overall financial position. What we are doing now is going beyond that and asking companies to run stress tests for us, which not only look at their position but look at what that position would be under a set of scenarios and circumstances.

Q13 **Chair:** Again, why was that not done before?

Jonathan Brearley: When you look at the proposals that we had, the difference and the shift we have to make is the financial responsibility proposals were really targeted at what we thought would be the edge cases or the worst part of the market. What we accept we need now is something that is much more comprehensive.

Q14 **Chair:** You said about the financial reporting since Covid. What was it before Covid?

Jonathan Brearley: Before Covid, we used to have what we called a watchlist of companies. That relied on a series of indicators that would identify when a company was in financial stress, for example delays in payments of renewables levies and things like that.

Q15 **Chair:** Pre-Covid, there was not active supervision and reporting of energy companies' financial positions.

Jonathan Brearley: There certainly was not to the extent there should have been, no.

Q16 **Chair:** During Covid, presumably you saw that some energy companies were in a tricky position and there was a period of time, albeit during a pandemic, before the energy crisis kicked off when you knew that energy companies were not as resilient as they ought to be. Is that right?

Jonathan Brearley: Yes. You will remember that there is a letter, which is now public, that we sent to Government that explained our concerns. In summer, we came forward with the statutory consultations that laid out the financial responsibilities that we had put in place in January of that year.

One reflection I have is that there are legal requirements on us to take time to consult. It is not simple for any regulator simply to put measures in place. If you play the time it took to consult, the time it took to implement those principles and then the time to get the guidance in place, that does often take months, and it did in this case.

Q17 **Ms Ghani:** Mr Brearley, it feels like you are giving us an example of what happened. All I am hearing is it is a bit too little, too late. A lot of it is in hindsight; a lot of the processes in place were post Covid.

You mentioned in your statement earlier the retail sector and that Ofgem should have been more resilient. I think you said—I wrote it down; forgive me if I am misquoting you—"Had we done more earlier, it would have been better for customers". Do you accept that the poor decision-making has led to customers paying higher bills?

Jonathan Brearley: We need to recognise the context at the time. At that time, there was enormous pressure, from the House as much as anywhere else, and there was concern about the fact that we had a small number of incumbents and huge concern that customers who were not switching, or indeed switching between them, were getting poor service and poor value for money. In my mind, it is understandable why the regulator focused on diversity. What I accept is that, alongside that, we should have been more careful about the financial resilience of those who were coming into the market.

Q18 **Ms Ghani:** You mentioned it was an unprecedented situation, but what I am failing to understand is where the risk management was, or if any strategies were in place for you to foresee what was going to happen. One could argue that it has happened quite slowly and at any point you could have intervened to help the customer.

Jonathan Brearley: This comes back to how we are able to implement regulations. When we saw the gas price rise, we did, as I say, respond by collecting information. We did issue provisional orders to two companies that we were most concerned about, one of which was Avro. The problem is, after that, the pace and scale of the gas crisis was actually quite quick. If you look at the supplier failures, particularly the ones that affected customers, most of those happened in September and October. Our organisational focus, given the scale of what we were seeing, had to be to protect the customers of those companies, and that is what we did.

Q19 **Ms Ghani:** You are now in a place where you are putting in your stress testing, which you have spoken about. You are looking at indicators for change. This is a slightly broad question, but I want to know how Ofgem is basically doing its analysis. Can you explain what analysis you are doing at the moment on the impact of energy prices if Russia was either to cut off or to reduce natural gas supply? What would that mean to the customer?

Jonathan Brearley: What we do and what we have done since the start of the crisis is run a series of scenarios. I have to explain that the volatility we have seen this winter is extraordinary.

I am going to take you back to a very dark moment in the regulator, just before Christmas, when the price got to £4.50 a therm, which we had never seen before in the market. What we do to manage that is we run a whole set of scenarios, one of which is extremely high prices. You would expect that to come through, for example, if Russia were to invade Ukraine. We do also have concerns about prices falling extremely quickly and the turbulence of that impact on the market. We have a series of scenarios against which we test the outcomes for companies and for customers.

Q20 **Ms Ghani:** I want you to knuckle down and tell me what the difference would be to the price for the customer if, as you said, Russia was to invade Ukraine. What analysis have you done? What can you tell us?

Jonathan Brearley: I am going to ask Neil to come in on the impact on prices. Just to give you a benchmark, if you look at the price cap we have just announced and that £700 rise, that moves the implied price in the price cap from about 70p to about £1.30. It is really hard to say what the price would be if Russia invades Ukraine but, let us say, the average price over the course of the price cap goes to £200 or more. You would be seeing significant rises again in the price that people pay, if that were sustained. Neil, I do not know if you want to add any more detail to that.

Neil Kenward: I am happy to. The critical thing to understand about the price cap is that the way the wholesale element is set is by looking at futures markets over a six-month observation window that happens before the price cap period itself. That is why people's estimates of what the price cap will be get more and more accurate as we get closer to the announcement date, because that observation window is filling up with the data.

What the data is telling us now, if you look at the futures markets for next winter, is that that is suggesting that there could be a further increase in the price cap. Actually, we do not know that yet, because our observation window has only just started. We are just literally a few days into it.

Over the next six months, markets will respond to events like Russia-Ukraine and other factors. That will then determine the price cap level in the coming winter. It really is impossible to say at this point what the prices will be.

Jonathan Brearley: Just to come back to your question, we are not experts in geopolitics but we expect that, if Russia were to invade Ukraine, and let us say that there was a sanctions regime that meant Russia limited gas to Europe, that would drive high price rises and, yes, that would ultimately feed through to customers. That could be of the scale of what we have seen before.

Q21 **Ms Ghani:** You have the analysis. You must have it by percentage points. If natural gas was limited by 10% or 20%, what would that mean to the customer in the UK? Do you have that data at all? We would love to see that.

Jonathan Brearley: We can absolutely give you all those figures. We can explain how we do it. We can show you the scenarios we run and what that might mean for prices.

Q22 **Ms Ghani:** That is fantastic. One of the things that you also mentioned in your statement was your relationship now with customers, because you want to know what the customers are saying, what they are feeling and what the circumstances are. You put that forward in your statement.

If you are focused on the customers, and obviously you are focused on giving them the best value for money, can I ask for your thoughts on what Germany is doing to try and keep costs low? The German Government plan to lower energy bills by reducing the cost of supporting renewable energy projects. From this year, the German Government will cut a green surcharge that appears on home energy bills from 6.5 cents per kilowatt-hour to 3.7 cents, and the German Government plan to cover the outstanding levies by using £3.3 billion collected by the Treasury via carbon taxes.

I know you mentioned net zero in your opening statement. Is this not an option that we could use—reducing green levy to make sure the customers can afford to pay their bills? Is that not something you are prepared to look at at all?

Jonathan Brearley: That is ultimately not for us. That is ultimately for Government. It is a choice for them. Clearly, it is possible, but there are a set of trade-offs that the Government need to weigh.

Q23 **Ms Ghani:** What is possible—a lower bill?

Jonathan Brearley: Can I just focus on renewable levies and the impact they have had over the course of this? There is an important point here. The relative cost of renewables versus the cost of gas in the market today makes those technologies extremely cost-effective. One of our renewables levies, which are different to Germany's, is actually vastly reduced, because those projects are paying back to customers now because their costs are much lower. Neil might be able to just expand on the impact the contracts for difference are already having, which is reducing those levies.

Neil Kenward: That is right. Traditionally and historically, money has been paid out to pay the contracts for difference, but contracts for difference are set at a fixed price. That has been the main mechanism for procuring new renewable energy over the last seven or eight years now. Because they are set at a fixed price, when the market price goes above that contract price, they actually pay back consumers. In the coming period, we would have expected a £22 contribution to the price cap from contracts for difference. That now is set at zero and could actually, depending on turnout of data, pay back to consumers.

Q24 **Ms Ghani:** Is that actually pay back or will pay back?

Neil Kenward: It depends on the turnout of the data and how that feeds through the price cap.

Ms Ghani: It all depends. We are just focused today on making sure—

Jonathan Brearley: The point here is, coming back to your question, that levies are coming down already.

Q25 **Ms Ghani:** Mr Brearley, what did you make of the announcement on 3 February on the energy price cap? How do you think that is going to impact household energy bills?

Jonathan Brearley: We have looked back and we cannot find a price rise as high as the one that we announced. As I say, I spend a great deal of my time talking to customers in all sorts of vulnerable circumstances. We know this has a huge impact on their lives. What we want to do with the industry and with Government is to do everything we can within our powers and our role to be able to offset that, but I have no doubt about the seriousness for many families across the UK.

Q26 **Mark Jenkinson:** I just want to probe on the levies and the contracts for difference. What is the lag on seeing these levies? Is it on a quarterly basis or on an annual basis?

Neil Kenward: They get settled through the LCCC on a quarterly basis; that is the Low Carbon Contracts Company. What we are able to do with confidence is set that at a level of virtually zero, or possibly zero, in the price cap period that is coming. The 1 April price cap is set at, essentially, zero for contracts for difference.

Q27 **Mark Jenkinson:** The price cap that we are about to see implemented has nothing in it for contracts for difference but will have other renewable obligations, such as warm homes, insulation programmes, boiler replacement and things like that.

Jonathan Brearley: Yes, exactly. There are difference schemes.

Neil Kenward: The overall total cost for those collection of green policies is now lower than it was in the previous price cap period.

Q28 **Alan Brown:** I just want to ask a couple of questions to try to get a handle on how effective the cap is. I am just wondering, first of all, how many customers are on standard variable tariffs or default tariffs that are protected by the cap. Also, how many are on these default tariffs and are not protected by the cap because they are exempt, because they maybe use higher than average energy and things like that?

I have a constituent who is struggling to pay her bills and I am asking her energy supplier, "Why is she not protected by the cap?" and their answer was that her energy consumption is higher than average. I just want to see how effective that is.

Jonathan Brearley: The cap is really a cap on unit charge—it is a cap on how much you pay per unit. That varies for every household across the country. We have tried to find the best way to communicate this when we talk publicly. The best way we can find is to take an average household and say what this does for an average household bill. Clearly, that is going to vary by different households. For those who use more, they are still going to continue to pay more; equally, those who use less will pay less. I do not know, Neil, if you want to add anything to that.

Neil Kenward: Everyone is protected by the price cap, unless they have signed up to a fixed tariff deal, which is obviously their choice. That usually would be lower than the price cap historically, but those deals are not cheaper now. Everybody gets that protection from the price cap.

Q29 **Alan Brown:** You are saying everybody gets that protection, but that is what I am saying: I have a constituent who is now paying more than the cap because, as you said, Jonathan, it is a unit rate rather than an absolutely cap.

Jonathan Brearley: It is 22 million households.

Neil Kenward: I believe it is 22 million, yes.

Q30 **Alan Brown:** In terms of regional variations, I notice on Ofgem's website it says there are regional variations based on network charge and the cost of moving energy about, effectively. That is a unit rate. The reality is you have a regional variation in energy demand. If you live in the north of Scotland, quite clearly you are going to use more energy to heat your home. Does that not then mean that the concept that is explained as this £2,000 a year does not apply to them either, because it is a unit charge? They are using more energy. They are paying a lot more money.

Jonathan Brearley: This is something we have wrestled with ever since we have had the price cap inside Ofgem. What we do when we make the announcement is try to find the best way to explain to customers what might change on average, but you are right: there are variations. There are variations in location, because network charges vary by location, and there are variations in the amount people use.

We are really open to ideas about how we can make that communication better, because when we explain it in those terms, it clearly become very complicated and very hard for people to get a sense of the change that has been made. The best way to think about, in my mind, is to look at the percentage uplift. That usually gives you an indication at the scale of the price rise for people.

Q31 **Alan Brown:** In terms of regional variations, there is a historic issue in the Highlands and Islands of Scotland, where people on restricted meters pay an additional surcharge: it is on average 4p per unit more for electricity. Yet the Highlands and Islands is obviously an exporter in terms of generation of electricity. Is that not an anomaly that Ofgem as the regulator should be looking at or discussing with Government, in terms of that penalty that is applied to customers?

Jonathan Brearley: I am really happy to take that away. I do not know, Neil, if you have any further points.

Neil Kenward: I do not know the detail but, yes, let us come back to you on that.

Jonathan Brearley: We are happy to come back.

Q32 **Alan Brown:** Because it is a unit price rather than an absolute cap, what does it mean for customers that are off-grid, who are therefore more reliant on electricity? How does the cap work for these type of customers?

Neil Kenward: We actually calculate two separate caps: one set that applies to electricity and one that applies to gas. It is the same process. Of course, each individual off the grid will have different arrangements. Some will have electric heating. Some may have other forms of heating—oil and boilers, et cetera. Those are not regulated by the price cap, but the electricity obviously is.

Q33 **Mark Pawsey:** Jonathan Brearley, you said earlier that the price cap has worked. I want to ask you one or two questions about the price cap. Is it not the case, in terms of having a six-monthly review, that we have had a sudden shock and this massive increase that you have just announced, and, in the absence of a price cap, consumers would have seen perhaps a more gradual change and they would have been better able to deal with it.

Jonathan Brearley: Just to clarify, the price cap has worked prior to the gas crisis. We think it needs to change and to adapt more frequently. However, what we saw in other countries that did not have a price cap was very sharp prices, very quickly. When we look at the other deals that were on the market that were unregulated, you would have seen sharper and higher price rises.

You could argue that when prices come down those prices might also reduce equally sharply, but what it says to me, in a sense, is that price regulation has played a role for customers over winter. It has led to a sharp uplift that we are seeing right now. What I think we need to do, at a minimum, is make sure that we update it more frequently so that is more attenuated, as you describe.

Q34 **Mark Pawsey:** You would change it more regularly than six-monthly.

Jonathan Brearley: Yes.

Q35 **Mark Pawsey:** I was going to come on to that, because one of the concerns we might have is that, in six months' time, market prices might have fallen but it is likely that we are going to have a further increase. We are going to end up with this situation where the price cap is going in one direction while market prices are going in the other. How do we explain that to our constituents?

Jonathan Brearley: That is part of the change we want to see. When you look at the history of the price cap—I know it is not a very long history—in a fairly stable market these things have really been edge issues compared to the changes that we have seen. In a volatile market, that is absolutely the issue we have seen with the price cap design. That is why we are saying our front-runner option for change for October will be to change every three months, so those changes are passed through more frequently.

I should say that consumer groups net accept the proposal that we are suggesting. You are talking to consumer groups next. There is a degree of discomfort with that, because that does leave people with a more volatile pricing situation. There are big trade-offs there, but overall I agree with the premise that we need to change it more frequently.

Q36 **Mark Pawsey:** When the price cap was introduced, it was brought forward as a temporary measure. It has been renewed. Do you ever foresee a situation where we do not have a price cap?

Jonathan Brearley: It is quite possible—

Q37 **Mark Pawsey:** It is going to stay with us forever.

Jonathan Brearley: It is quite possible that we see a situation where there is no price cap, but you need the market to change quite considerably.

Q38 **Mark Pawsey:** What would enable us to do away with the price cap?

Jonathan Brearley: We apply a set of tests that say, "Is the competitive market working effectively enough that those customers, particularly those who do not switch, are going to be able to get an effective deal out of the market?" You have to remember that we think we are going to need to move to a very different retail market in the future.

Think about a world in five or 10 years' time where we are seeing a great deal of reliance on electricity, we are seeing heat pumps and we are seeing electric vehicles. Indeed, the report last week from this Committee around what we might see means that what we want to encourage customers to do is to move their usage over the course of the day. That means a more frequent change in price.

Q39 **Mark Pawsey:** The Government introduced the price cap, essentially, because consumers were not switching enough.

Jonathan Brearley: I am not sure that is the diagnosis I would apply. When I look back at our history and I think about the debate that was there, and frankly the regulatory philosophy that was behind it, the issue is not that people are not switching enough; it is that it is quite easy to segment customers.

For example, if you look at another sector that is relatively competitive, supermarkets, you do not expect everyone to change every supermarket to get the best deal. It is the marginal customers that drive down the price for everyone. What you see in energy, unfortunately, is that it is relatively easy, like you see in financial services, to put a ring-fence around those people who switch and offer them a particular deal and leave those who are steady on deals that ultimately become more expensive. That loyalty penalty was the reason why the price cap was introduced.

Q40 **Mark Pawsey:** Given that many consumers who did switch have been caught by suppliers who have gone bust—they switched because there was a campaign to encourage people to do that—and are perhaps regretting that decision now, how are you going to get people to switch in the new world, once everything settles down? They may not want to do it anymore.

Jonathan Brearley: This is why the financial resilience proposals are so important. That is why were are pursuing them at pace, because we do need customers to have confidence in the ability to switch between companies. As we build up those proposals and as the market becomes more resilient, we will see opportunities for people to switch. Equally, the economics will change at some point and the economic advantage for switching will be as robust as ever.

Q41 **Mark Jenkinson:** Just to follow on some of that line, we have 22 million households currently sitting on the price cap, which is about four-fifths. My understanding is that has not increased massively from the number of households that normally would not be on fixed tariffs.

Jonathan Brearley: It has increased quite substantially.

Q42 **Mark Jenkinson:** What would be the usual number?

Neil Kenward: Last summer, it was more like 15 million. What has happened is that, as people who were on fixed tariffs have come to the end of their deals, they have looked in the market and actually, as Jonathan was saying, the fixed prices are obviously much higher at the moment, so people are defaulting on to the price cap standard variable tariffs. That is causing problems, but it is actually providing really important protection for consumers.

Q43 **Mark Jenkinson:** Fifteen million is probably just under half of UK households. Is it not the case that the price cap is disincentivising switching? It removes the incentive to switch. That is why we end up with so many sitting on the price cap and energy suppliers effectively subsidising them, as it is at the minute.

Neil Kenward: We got to the point before the current crisis where almost half of households were switching and were actively engaging. It is historically really encouraging to see those active choices being made by consumers. It was on a helpful trend, but obviously the current gas crisis has led to people rationally taking shelter on the price cap tariffs.

Jonathan Brearley: Just to come in on that, when the price cap was introduced, there was concern from us and from others that somehow this would limit the amount of switching. That is not what the evidence has shown. It comes back to this point: you still have a large number of people who are not switching, a large number of people who want to stay on the standard variable tariff. When we think about the future of retail regulation, when we think about how we are going to drive up customer service standards, we may have to accept that as more of a reality and therefore think differently about how we are going to make sure that other things customers want get implemented.

Q44 **Mark Jenkinson:** What is the likelihood of the price cap raising again in October and what will be the main factors that determine whether it does?

Jonathan Brearley: As Neil says, when you look at the forward prices right now, there is upward pressure in prices still. You may see a rise in October. The caution I have in predicting that is I went back and looked at what we predicted in August when we announced this price cap. The difference between those predictions, which were that the price cap would stay roughly level, versus what we have seen is huge.

To be honest, as you can imagine, I look too frequently at the changes in the gas market. In fact, you have to watch yourself; you can watch it much too much. The market is looking at some factors that are fairly binary.

The Russia-Ukraine situation has already been mentioned. That will clearly have an impact on supply and that will clearly have an impact on price. I would caution against any projections, but if we just look at the forward market, so what the traders think right now, it does look like there is upward pressure on prices.

Q45 **Mark Jenkinson:** Wholesale prices will be the determining factor.

Neil Kenward: They will be by far the main determinant of the price level come the winter.

Jonathan Brearley: Just to say, almost always they are, even in smaller rises. That is what drives the price cap up and down.

Q46 **Mark Jenkinson:** Is there anything that we or anyone can do in the short term to mitigate potential rises, whether it is Government or suppliers?

Jonathan Brearley: I have thought hard about this and, as we came up to the announcement and we saw the scale of this announcement rising, we have looked hard at what Ofgem can do. We have rules that we apply to suppliers about how they treat vulnerable customers. We have a voluntary agreement with the industry. Quite frankly, the scale of these rises can only be met by Government action.

Ultimately, it is a matter for Government as to what they do to respond. They have announced a package last week. As I am sure you will understand, it is not my position to comment on whether that is a good or a bad package. This is something that only Government can intervene to address the scale of what we are seeing. That is not to say we will not play our part. That is not to say the industry will not do what it can, and I hope they do, but this is of a scale that is simply not really one anyone else can manage.

Q47 **Chair:** Can I just check: are we expecting the price cap to go up again in October?

Jonathan Brearley: To be clear, we do not know. When we look at the forward markets, there is upward pressure right now, but those forward markets have been extremely bad predictors of what might happen in October.

Q48 **Richard Fuller:** I just want to come back, Mr Brearley. You were talking about your statement in August on the prices. You have said you look at the futures market too much; I have not, but I have looked at the Dutch TTF numbers. In July of last year, the number was 40.7, in August it was 50.3 and in September it was 97.8. At no time in the previous five years had the number been higher than 24. Why on earth did you not think there was going to be an increase when you looked at these numbers in July and August?

Jonathan Brearley: When we looked at these numbers in July and August, our expectation was that we would see more supply than came forward. Quite frankly, we were looking at the changes. We did look at the implications for the price cap, but we did not understand the dynamic would change so dramatically to lead to what we saw.

Q49 **Richard Fuller:** This is my point. It had already changed. There was no time in all your time at Ofgem that prices have been anywhere near this level. This price was 80% higher than anything you had seen before and your decision was, "We will see".

Jonathan Brearley: No, we looked at it. We issued the RFI on hedging, so we started looking at people's hedging data, but we did not project what we saw, no.

Q50 **Chair:** Why did you think supply was going to increase and then it did not? What was the key reason there?

Jonathan Brearley: It is not my position to comment on geopolitics, but when you look at the market you have three factors that I see broadly. You did have low storage in the end of last winter. You have a higher level of demand from Asia, but in a tight market those who supply any product have a chance to influence price. Now, one of the things I am sure this Committee has looked at is the amount of gas that has come from Russia over that time. That has, at times, meant a dramatic increase on price.

Q51 **Chair:** Low storage of gas in the UK was a problem.

Jonathan Brearley: This is not about UK storage. It is not so much about low storage capacity; it was about what was full at the time, and that is a European issue.

Q52 **Chair:** Of the 50% of households who were switching before all of this kicked off, what percentage of them were on auto-switching deals, where they were not actually looking for themselves to find a deal and making the decision but were on platforms that were switching them to the lowest prices automatically?

Neil Lawrence: I do not have that data; I am sorry. We can get back to you with that.

Jonathan Brearley: It is a relatively small amount compared to most switches, but we will come back to you.

Q53 **Chair:** The concern on auto-switching was it was just defaulting people automatically to the lowest price, which was fuelling the problem with often smaller challenger companies under-pricing in order to try to then make up the money later on, and then time ran out. Is that right?

Jonathan Brearley: We have had concerns raised to us about auto-switchers. Certainly, when you look at the attitude that suppliers have to customers from those books, it is one where you expect people to move automatically to the lower price. If you have a market where people are not financially resilient, then clearly that does exacerbate the problem. We do not have regulatory powers over switching sites or switching companies, but part of the mitigation we are putting in place is the financial resilience, so those choices are more constrained.

Q54 **Chair:** I am sorry to jump around, but you said storage was a European problem. Why is it a European problem? Should we not have capacity for our own storage in the UK?

Jonathan Brearley: There is a Government question about how much capacity we need, but my point was less about the level of capacity; it was about how it was filled up. It was not about how many holes in the ground. It was about how full they were.

Q55 **Chair:** It was filled with Russian gas.

Jonathan Brearley: It was not filled with Russian gas. That was the problem.

Chair: You were expecting it to be and then it was not. That is understood, thank you.

Q56 **Alan Brown:** You were saying there, Jonathan, you have concerns about auto-switchers, but the long-term stated ambition for the Government is that people need to opt out from auto-switching. If they have caused a problem to date, should it not mean there needs to be significant reform before we can ever get to the place where auto-switching is the default option?

Jonathan Brearley: We have to be clear that there is a shared ambition across the regulator and Government to increase levels of switching. Switching was seen as the main driver for price, and indeed for customer service. We would say, our reflection now is that switching does play a substantive part in that, but we need to look more broadly at how we regulate the retail sector to make sure that customers do get out of it what they need. The Government did come forward with auto-switching proposals. One was opting in and the other was opting out, but they have paused that as part of their wider retail review, and that is really a matter for them.

Q57 **Alan Brown:** What are the timescales, do you think, for it to be practical?

Jonathan Brearley: Ultimately, that is part of their retail review and they need to make a decision first about whether they are going to bring it forward.

Q58 **Ms Ghani:** On storage again, Mr Brearley, I do not expect you to provide us the Government's response, but you must have an idea, if we had more fuel storage, what that would mean to the customer in prices or not.

Jonathan Brearley: The problem is we are in a global gas market. The honest and candid answer I can give, without taking responsibility for Government decisions, is that ultimately it would have a marginal impact on the overall price because it would be a contributor but a relatively small contributor to a global gas market. What it might do is increase resilience, but that is ultimately a matter for Government.

Q59 **Ms Ghani:** It might increase resilience, but if we had more domestic storage, would it not provide some resilience and then reduce the price, or are you just thinking about the storage that we had previously around 2010, or if we had more now?

Jonathan Brearley: I am just doing the mental maths here. If we had more storage, it would help, because there would be more gas availability, but you have to compare that to the size of the market and therefore the supply versus the demand that you are seeing. We have not done the full analysis. It is for Government to do that, but my expectation would be it would have a marginal impact on price.

Neil Kenward: The experts that we or I have spoken to in global gas markets say that it would not make a significant difference to the UK price, because the UK price is set globally.

Jonathan Brearley: It comes down to the dynamics of the gas market. We do not get very much gas from some major supplier like Russia, but it has an impact on the price, because others do.

Q60 **Tonia Antoniazzi:** Following your announcements on 3 February, on 4

February you announced reforms to the energy price cap mechanism. What were your key announcements about changes to the energy price cap and what impact do you expect these to make?

Neil Kenward: We had the unfortunate duty of having to announce a significant rise in the price cap level. The main benchmark price cap went up by £693 to £1,971. As we have described, the main driver by far of that was the increase in wholesale energy prices. We also set prices for PPM customers and for people who pay on a cash and cheque basis. Those were the key announcements and all of those price cap levels saw a significant rise. We fully understand that puts enormous pressure on millions of families up and down the country.

Q61 **Tonia Antoniazzi:** In the meeting yesterday that I participated in, you said about there possibly being a quarterly update on the price cap. Is that something that you are seriously looking at? Why would it be beneficial?

Neil Kenward: That is right. We published a consultation document on Friday that looked at all the benefits of the price cap and that recognised that, at times of extreme market volatility, the price cap struggles to respond in a timely way, which creates risks in the market and risks ultimately for consumers. We put forward two potential changes to the price cap methodology. The first one would be moving to quarterly updates, as Jonathan described. That is our preferred option at the moment, and that could be implemented by October.

Then there was an alternative option that we are seeking stakeholder views on, which is around moving to price cap contracts, which would be a set of rolling contracts that people would take as part of the price cap. That would be the new SVT. We are keen to get stakeholder views on these but, as I say, at the moment our preferred option is quarterly. That would mean more regular changes for consumers, but hopefully smaller steps with each one. It would reduce risks to suppliers, which, as we understand, obviously leads ultimately back to cost on consumers.

Jonathan Brearley: Just to add to that, there are trade-offs here, and there is a degree of discomfort with us changing the price more frequently, particularly if you were to make a change in winter, for example, where clearly for customers, particularly those on pre-payment meters, that might mean a significant change at a time when you are using most of your energy. What we are really trying to do here is to get the balance right between, principally, making sure that customers pay a fair price for their energy and making sure the price cap can adapt to a changing market, which changes as dramatically as the one that we have seen.

Q62 **Tonia Antoniazzi:** Mr Brearley, we have just seen in the news that major oil companies have made rather large profits. You said it was up to the Government to intervene. Would a windfall tax on these profits be beneficial to the customers in the immediate or long-term future?

Jonathan Brearley: There are two things I am told as a regulator. One is not to get involved in policy, and the second is definitely not to get involved in tax decision. That is probably the way to answer.

Q63 **Tonia Antoniazzi:** Moving on to the energy retail market, to what extent have the failures in the regulation of the market exacerbated the impact of the gas crisis on household bills?

Jonathan Brearley: Out of the rise that we announced, £68 is the levy cost of paying for those failures. Now, in terms of the main driver of that cost, the vast majority of that cost is down to paying the wholesale costs of re-hedging customers, so making sure that every customer who has moved has access to energy at the price cap.

Q64 **Tonia Antoniazzi:** What measures are you taking to be robust about new entrants to the retail market?

Jonathan Brearley: We already introduced powers in 2019 in the retail market. None of the companies that came into the market since then has been a company that has failed. We do have measures in place. We have also said, though, given the volatility in the market right now, we have a moratorium on new entrants until things stabilise.

The issue that we really need to tackle is what we do with those who are already here. We need a much closer and more focused monitoring regime to make sure we understand the risks that they are taking early and, therefore, we can take regulatory action to avoid that.

Q65 **Andy McDonald:** Thanks for this evidence this morning. Just taking a step back from all of this, our constituents do not really care where their gas or electricity comes from. They do not compare and say, "That gas smells better than the other one", or, "That light burns brighter". They are getting hammered here, absolutely hammered.

When things have gone into meltdown, you have the consumer credit costs being taken away. The companies have had their money and it has been taken away from them. The onus of this structure is on the customers to go and seek better deals elsewhere. Is this in any way fair? Is it a fair way to structure an energy policy in this country?

Jonathan Brearley: We make sure that every customer credit balance is protected, but those costs are socialised ultimately amongst other customers. We also make sure that companies are honest and fair in the way that they offer their prices and they compare them. What I would say is that I think that there is going to be a shift, particularly when we think about the future of retail, which means that we need to think harder about how we regulate that part of the market that does not switch.

One of the biggest problems we have had in the last 10 years, and why Ofgem's focus was so much on diversity and so much on getting entrants into the market, was that we felt—and I think everyone felt—that those people who were not moving were not getting a good deal. That is why we have the price cap and that is why we have the sort of pricing regulation we need.

One thing I will just add actually about the price cap is that, although we are making changes for October, it may well be we need to reform the price cap further. We are also starting a conversation about how we make sure that we best deliver the aims of the price cap, which is really to ask, for those people who do not switch, how we make sure they get the best deal.

Q66 **Andy McDonald:** It is estimated that due to the supplier of last resort levy claims, £68 is going to be put on to the average customer bill in April, and then presumably it goes up again in October. Is that process the most effective way of recuperating costs considering the increase it has on consumer bills?

Jonathan Brearley: There may well be ways that you can improve it, but in terms of the fact that we have had 4 million customers overall affected, that we have kept people on supplies and we have protected their customer balances, in general it works, but we are trying to work through what might need to change. We would be happy to update the Committee on that. I should mention in this Committee that we are doing our own lessons learned exercise. That is something that will be public, and that will be part of it.

Q67 **Andy McDonald:** Are you able to indicate now what those reforms that you are considering are?

Jonathan Brearley: There is a series of things. Particularly the relationship between the insolvency regime and the supplier of last resort process is something that we need to look at. For example, the behaviour of companies with administrators and what those administrators do to pursue debts is something that has been raised as a concern to us.

Q68 **Andy McDonald:** You said earlier about 29 companies that have gone bust. Is there an observation about why they have gone bust? What are the fundamental reasons for them failing?

Jonathan Brearley: There are three drivers. One is the big change in gas price, first of all. Secondly, as we have mentioned, the financial resilience of those companies was not strong enough. For some of them, regardless of any other intervention that was the case. Thirdly, what we saw is, when companies got into financial distress, the price cap stops them responding in a way that other companies might respond. The way they would respond is by raising prices quite dramatically for their existing customers, and there is a trade-off there to be made.

Q69 **Andy McDonald:** What protections are there for the customers in those circumstances? That is the issue.

Jonathan Brearley: In those circumstances, every customer is transferred to a supplier and they get energy at the level of the price cap.

Q70 **Richard Fuller:** Can I just follow on from Mr McDonald's question about the companies that have exited? Do you have any powers of redress on those companies? There is obviously an opportunity for companies to say, "Hey, we want to get in the energy market". They price themselves low, get lots of customers, they pay themselves a lot of money as executives of these businesses, and then their business goes bust but they have paid themselves. What redress do you have in those circumstances?

Jonathan Brearley: We do not have redress in those circumstances.

Q71 **Richard Fuller:** Should you?

Jonathan Brearley: I think we should, yes.

Q72 **Alan Brown:** Just following on from that, you are saying some companies cannot pass on the cost the way they could. Out of the 4 million or so customers affected, or the 29 companies, how many of them went bust just because they were not financially resilient enough and they were buying in the spot market, and how many were actually because they could not carry the losses of customers on their card?

Jonathan Brearley: We are trying now, as part of that lessons learned process, in a structured way to find out the balance of those two impacts. Frankly, I expect the thing that we will find is that the improvement in financial resilience that you would need is probably the main driver.

My point is simple: that there are some companies who did hedge properly against the customer book they have had but have found themselves locked into a price cap that was less affordable, and that has been a reason why they have failed. My view is, if you are thinking about how we change this, yes, we have to improve financial resilience, but we need a more adaptable price cap that changes more frequently.

Q73 **Alan Brown:** How soon does that need to come in? If you look at the long term, the price cap is not a subsidy; it is just a control mechanism. Some companies are arguing they are subsidising customers just now because they are not able to charge the actual costs. They have to recover that cost. It would seem to me that prices are going to keep going up via the cap mechanism as companies need to recover that. What needs to happen to stop more companies going bust? Is there a risk new entrants come in when prices go low? A new entrant comes in and it can hoover up customers by offering a lower tariff, and then you have further market distortion.

Jonathan Brearley: Yes, absolutely. I mentioned earlier on that there is a problem when prices go up, but if prices come down very sharply then we are proposing to introduce what is called a market stabilisation charge. That would make sure that, if you have done the right thing, hedged against your customer book and made sure that you are protected against prices going up, you do not simply lose all of your customers very quickly and then get into financial trouble. That is one of the things we are yet to finalise but we are considering.

Q74 **Alan Brown:** On one level, that is stabilising the market and protects some companies that are losing money, but the flip side of that presumably is it is another charge, effectively, that consumers are going to have to carry, which confirms that we are going to be paying as a result of this price spike for a long time, surely.

Jonathan Brearley: The way the charge is designed will make sure that there are good value tariffs in markets. People will still be able to access quite significant reductions, if the wholesale price allows that to happen. It does attenuate that, just for a short period of time, to make sure that the market gets into a more stable position.

As to the overall trajectory of price, with all of these factors, the main and most dominating factor is going to be what happens to wholesale prices. We know what the forward markets are telling us, but I would not rely on that as a good guide.

Q75 **Alan Brown:** Just on that kind of resilience in the market prices, should there be greater regulation in terms of buying from the spot market and making more companies hedge properly?

Jonathan Brearley: Neil might want to come in on that, but basically my answer is yes.

Neil Lawrence: Yes, absolutely. We monitor the hedging levels of all the companies in the market. We are increasing our monitoring over that through the financial resilience work. We will keep a close eye on what companies do. Clearly, in terms of the decision that a company takes, if they choose not to hedge, they need to have the capital adequacy to be able to withstand the shock in the market to protect consumers in the long term.

Q76 **Alan Brown:** What can you do as a regulator? If you now think companies X, Y and Z do not have enough long-term hedging properly in place, what can you do as a regulator then?

Jonathan Brearley: We have a series of enforcement powers. Just to step back, just to reinforce what Neil is saying, because that is quite an important point, we do not want to get involved in the details of what a company does to manage its risks. If they hedge, then that is fine. If they hold capital and they can manage it through a series of scenarios, that is fine, but they have to do one or the other. What they cannot do is not hedge and have no reserves to be able to cover it. That is the important point of where our financial stress test will take us.

If we find companies are not where we would like them to be in terms of risk management—Neil, you may want to talk about what we are doing in terms of the governance around this as well, because it is not just about what they do; it is about how they run their decision-making—then we have a series of powers to stop that. That would include, for example, starting with stopping a company taking on any further customers, so making sure they cannot bring other customers into that risky situation.

It goes through dividend lockups and other mechanisms we have to make sure that, before shareholders get paid, companies are making themselves more financially resilient.

What I expect to happen is I doubt we are going to find from these stress tests that everyone is perfect, and I suspect the next stage will be a transition plan agreed with each of them to move into a different state.

Q77 **Alan Brown:** That goes back to earlier questions from the Chair. If you find companies you do not think are resilient enough now, looking forward, there is still a concern even if there is consumer credit. They have their hands on that consumer credit, that is not protected and you still cannot do anything about that with your current powers.

Jonathan Brearley: What we are proposing is we introduce the powers to ring-fence credit balances, but that is why we are looking at not only ring-fencing them but making sure those are insolvency-protected, so you do not end up with credit balances that are held and then disappear as a company goes into financial distress.

Q78 **Alan Brown:** What is the timescale for the new regulations?

Jonathan Brearley: We are bringing those proposal forward in March.

Neil Lawrence: Just to add to the point on financial regulation, we are also looking at the management frameworks that the companies have in place over their organisations to make sure that they are managing these risks properly. That involves things around governance, the process and the controls they have in place to satisfy ourselves; it is not just about whether they can handle the stress test but whether they have the processes and the control in place over their organisation to make sure they can manage these things going forward. They need to be resilient to a range of scenarios, price rise and price fall, moving forward.

Jonathan Brearley: Neil is from a retailer, so he is able to help us with that.

Q79 **Mark Pawsey:** I just want to go back on resilience. If you are going to strengthen it now, by definition it was wrong before. Why was it wrong? Was it wrong because you got the parameters wrong, or were you being persuaded by Government to let all these entrants in to provide some competition? We have heard accounts of people setting up businesses in their bedrooms. That was completely wrong. Where did the responsibility for this lie: with Ofgem or with Government?

Jonathan Brearley: Ultimately, GEMA is the decision-making body for Ofgem; GEMA is where decisions are made. I have looked, as you can imagine, in detail at all the papers that came through and all the arguments that were made. There was a clear ambition to diversify supply. Frankly, that was not just a GEMA or an Ofgem ambition. That was an ambition that was shared with Government at the time. For example, there were quite a number of exemptions.

Q80 **Mark Pawsey:** It seems to be, "Let us allow anybody into the market at any cost". Anybody seemed to be able to do it.

Jonathan Brearley: We did introduce tests that applied to new entrants. Those tests have been quite successful in reducing new entry, but there was a time when a large number of people were coming into the market because Ofgem's focus really was on allowing diversification. Now, there were good reasons for that.

Q81 **Mark Pawsey:** In hindsight, you would have done something differently.

Jonathan Brearley: With hindsight, we would have done something differently, yes.

Q82 **Richard Fuller:** In your 2021 annual report, you say that there are two equally important challenges. One is "to protect today's consumers to make sure they get a fair deal". How does Ofgem define "fair"?

Jonathan Brearley: One thing that has been actually increasingly clear to me throughout the crisis is we have to be really clear about our role. By fair, we mean a price that fairly reflects the costs the companies have to pay. What we need to do with the price cap is give our best assessment of what that costs.

When I think about what we had to announce last week, when I think about the scale of change, I know that does not feel fair to customers; I am sure it does not. Our job, which my team back in the office describe it as being bean-counters, is to make sure that we provide a fair assessment of what customers need to pay for their energy. What we cannot do is get into value judgments around that. Ultimately, that is not for us.

Q83 **Richard Fuller:** Essentially, your definition of fair is that it is related to costs and a fair return on top of costs for your suppliers.

Jonathan Brearley: Yes, it is.

Q84 **Richard Fuller:** Thank you. I am struggling with some of your answers to think whether the world would be better off without Ofgem. It sounds like you are a regulator that is good for benign times and you are good for long-term transitions, but you are rather struggling at the moment. Is that a fair assessment?

Jonathan Brearley: No, it is not. The work that Ofgem did through September and October, not only to protect customers, not only to move those 4 million customers to make sure that they are protected on the price cap, that they have supply and that they get their credit balances back, and, in addition to that, reforming the frameworks that we need to reform, mean we have move incredibly quickly to respond to the crisis that we have seen.

As I have said here, there are lessons for us. There are lessons for us particularly in the way we set the frameworks up in the past and there were judgments that we made that with hindsight we would make differently, but we have moved extremely quickly, in a situation that is as big as the oil shock was in the 1970s, to make sure that we manage the best way through it.

Q85 **Richard Fuller:** What are the consequences for those bad calls for you and your colleagues?

Jonathan Brearley: In terms of what?

Q86 **Richard Fuller:** You talked about how you made the wrong call on prices in May. You wish you had moved faster when the price cap was introduced. You wish that there had been tougher financial regulations. You have made assessments of £200 million that has been lost and admitted that you will get it back to customers. I am just asking. You are the regulators and, between the top five of you, you rake in £1 million a year and you have £2 million of cash benefit in your pension funds. You have talked about fairness. I am wondering what the consequences are for you and your team for these bad calls.

Jonathan Brearley: Ultimately, our performance is assessed by our board. We are answerable to our board, GEMA, but a lot of these calls were made some time ago and certainly were not under the decision-making of the people that sit in front of you today.

Q87 **Richard Fuller:** Generally your thought is you cannot really see a reason proactively to suggest that you have done a poor job and something should be done.

Jonathan Brearley: We have lessons to learn. I have been really clear about that today. There are things that need to change. Overall, given the scale and the pace of what we have seen, given the pace of challenges that Ofgem has faced, we have made significant changes, we have protected customers and we are building the frameworks that we need to build, as well as doing the other things we need to do for the long term and for everything else.

Q88 **Chair:** There are just two final questions from me. In respect of the £200 rebate and repay that we are all being forced to take on our energy bills, what role is Ofgem going to play in regulating that mechanism.

Jonathan Brearley: As you can imagine, there are details to work through, but particularly our role will be to make sure that those payments are made. Once the money is transferred to suppliers, our compliance teams will be working with them. Neil, I do not know if you want to add anything further to that.

Neil Lawrence: Yes, absolutely. It is really important that we think through the detail with Government and make sure that the mechanism enables money to get to as many consumers as possible, but also that we manage the risks. This is a significant amount of public money, so it is good for consumers, but we need to manage the detail working with the industry and working with Government.

Q89 **Chair:** It is mandatory, is it? I do not want it but I am going to get it. That is right, is it not?

Neil Lawrence: Yes, that is right. It is a universal point, but that is really a question for Government and not for us.

Q90 **Chair:** On timescales, just remind us when this is coming into force.

Neil Lawrence: The payments should be made in October, according to the Government scheme, and the detail is being worked through with the industry as we speak.

Q91 **Chair:** When will we get sight of the details about how it is going to work?

Jonathan Brearley: If I just jump in, this is all for Government. This is their scheme. We are helping them implement it.

Neil Lawrence: It is a Government scheme.

Q92 **Chair:** You surely have a date that you know when we are going to see the details of the scheme, if you are going to have oversight of it.

Neil Lawrence: The scheme was announced last week. Plans are being made, but Government will be in control of the communication timetable, not us.

Jonathan Brearley: All of these details, I am sure Ministers will be really keen to answer.

Chair: I am sure they would. Thank you, Mr Brearley. That brings the first panel to an end. Thank you, Neil Lawrence, Jonathan Brearley and Neil Kenward for your contributions this morning. We are very grateful.

Examination of witnesses

Witnesses: Peter Smith, Jonathan Marshall, Stephen Fitzpatrick and Emma Pinchbeck.

Q93 **Chair:** We are now going to move on to the second panel. Physically in the room we have Emma Pinchbeck from Energy UK and Stephen Fitzpatrick from OVO Energy. Hopefully, on our screens we will see Peter Smith from National Energy Action and Jonathan Marshall from the Resolution Foundation. Thank you and good morning to all of you. I will open with some questions before I bring in colleagues in the normal way.

Emma Pinchbeck, I will come to you first. We have heard about the role of the change in the wholesale price of gas and how that has driven a lot of the issues in the crisis, but there have been lots of concerns raised about bad corporate behaviour, whether it was about using consumer credit as working capital, unacceptable levels of risk on hedging, too low a level of capitalisation within businesses and the other roles around trying to undercut on pricing, auto-switching and how that maybe fuelled some of the collapses.

Ultimately, there is the significant cost that consumers are now bearing for corporate failure, but also for a loss of, we anticipate, £200 million of consumer credit money that was consumers' that has got lost in this process and that they are now having to pay back themselves. Why was there this bad corporate behaviour in the energy market?

Emma Pinchbeck: As you say, by far the biggest contribution to the rise that we are talking about in April is the wholesale gas price crisis and that being passed on in the UK, as it has been in other markets.

When I gave evidence to you in September, we flagged that we had been worried about the retail market for some time, as industry, and had been calling on the regulator for reform on many of the issues that you have discussed. We have had 27 retail businesses fail and that has had a cost to customers. You can see that also in the price cap announcement. We are working very closely with them on their proposed action plan. We welcome it. There is a lot of detail in it, so on each of those issues there are different views in the sector. The important thing is that we all agree we need a sustainable retail market that is fit for purpose and offers fair services to customers. Fundamentally, for this particular bill rise, the significant proportion of it is to do with this wholesale gas price crisis.

There is bad practice in every industry. Where there has been bad practice, we acknowledge it. I am thankful that very few of the truly bad actors were Energy UK members. We have been flagging risks in the sector for a long time. A reset on retail is really needed.

Q94 **Chair:** If you were flagging risks for a long time, why do you think the regulator and/or Government did not move more quickly?

Emma Pinchbeck: There are a few reasons, but I would start with this. I have been working in the sector for 10 years, right across energy policy, and I came back to retail two years ago. A really big contributing factor is cultural. We do not understand what retail is for. It is often a very defensive or punitive relationship between the regulator, Government and the sector.

Some of the policies that that led to were things like a push for more market entrants at whatever the cost or a focus on collective switching, which often worked against the Government's stated ambitions for things like net zero, which require enduring relationships with customers and good service.

It starts with having an idea about what retail is for, seeing it as part of your energy strategy, valuing it and then designing policy off it. We can talk about some of the details and the mistakes. Fundamentally, it was very welcome that both the Secretary of State and the regulator came out and said that there was short-term reform needed to get through this moment, but also we need a much longer-term look at our retail strategy. The industry will work with them on both of those things.

Q95 **Chair:** You welcome the suggestion from Ofgem just now that there will be a closer working relationship between energy companies and the regulator.

Emma Pinchbeck: It would be very helpful to have that cultural reset, yes.

Q96 **Chair:** Stephen Fitzpatrick, do you welcome the suggestion from Mr Brearley that there is a closer regulatory relationship, supervisory relationship, between Ofgem and energy companies like yours?

Stephen Fitzpatrick: Yes. We have talked about the business failures through this big increase in wholesale gas prices in 2021, but there have been more than 50 energy supply failures going back five years. It has been pretty obvious for many years that the quality of companies entering the energy retail market and their ability to manage the complexity and rigour that the energy market requires has not been there.

I noted Jonathan Brearley's points about the support for more choice for customers and for the retail market to be more competitive. It is pretty obvious that standards were lowered too much and maybe enough attention was not paid to who was entering the market. We have been calling for the standards and regulations to be tightened and for there to be a more collaborative relationship with the retail sector.

Emma's point is correct. I think back to when I launched OVO in 2009. Six ex-monopoly companies had a 99% market share and were extremely profitable. Fast forward 13 years and the market is very different. It has completely changed, but the relationships with Government and the regulator have become very difficult. I welcome the reset. We are left with a smaller number of, I hope, better-run energy companies. They will be able to invest more in the kinds of technologies that we are going to need to help consumers make the zero-carbon transition.

There is going to be more responsibility on our part. It is clear that Ofgem wants more information from us. We welcome this more transparent relationship. If we design the market system right, we can have fewer participants that are better equipped to support consumers. It is all very welcome but obviously more could have been done sooner.

Q97 **Chair:** Does OVO Energy ring-fence customer credit?

Stephen Fitzpatrick: OVO Energy in fact is in a position where, on a net balance, customers owe money to us. We have a large number of customers who pay in arrears. We have some who pay in advance. Throughout the year, the cycle changes, because consumers paying on direct debit over the summer get to a credit position. Those customers who are paying in arrears obviously do not. We do not have a net credit balance. We have a net debtor balance for customers.

Q98 **Chair:** That was a nice try, but you did not answer my question. For customers who are in credit, do you ring-fence their credit?

Stephen Fitzpatrick: All our customer balances are in one—

Q99 **Chair:** So you do not. You might have heard just now that Mr Brearley from Ofgem said that he felt executives of energy companies should be liable in circumstances where there is failure. Do you agree with that?

Stephen Fitzpatrick: Certainly, if I look at the failures that we have seen, there has been a lot of arbitrage opportunity. I know that members of this Committee will express their displeasure at this. There has been an opportunity to, effectively, gamble with other people's money and, in some cases, consumers' money. Where there has been inappropriate behaviour, it is absolutely right that there should be a redress.

Q100 **Chair:** There was an announcement from Government recently around tax changes to selling parts of companies where they provide different corporate structures between the retail side, trading side and other parts of the business. What is your reflection on that?

Stephen Fitzpatrick: It is part of a broader suite of measures that Ofgem and BEIS have brought in to tighten up how the retail market works and ensure that consumers and the taxpayer are better protected. In some of the supplier failures, going back to August and September, there has been this segregation of assets. Unfortunately, it has meant that the taxpayer or consumers have ended up paying more.

We are on the record on this. We have been speaking to Ofgem and BEIS throughout the autumn and winter period, particularly over the Christmas period when we saw this really big spike. You had Jonathan Brearley talk about 450p a therm. There were many scenarios where the entire energy retail sector looked at risk. We were in discussions with the Government about that. This particular measure is absolutely as it should be.

Q101 **Chair:** In OVO Group, I think I am right in saying, you have the retail business, with your call centre staff, selling energy and billing and all that type of stuff. Have you separated out your assets in OVO Group using different corporate vehicles in a way where this tax might bite if you were to try to sell—

Stephen Fitzpatrick: Going back to 2009, we set up a gas licensed company, an electricity licensed company and a group company. We also have an FCA-regulated entity that provides insurance for consumers and so on. Yes, we have that structure.

Our trading partner, Shell, is part of a broader credit group. The whole entity is secured against our trading relationship with them, which has given us access to all the hedges that we have needed. When you look at other companies that have not had that structure in place, that have not been able to hedge properly, they have gone out of business very quickly. For us, it has enabled us to hedge properly throughout the whole winter

Q102 **Alexander Stafford:** This is mainly to Peter and Jonathan. We know about the high impact of energy bills, but I am more interested in what effect that high impact of energy bills has on actual household budgets. What are you seeing people scrimping, saving on and sacrificing? What impact is that having on people?

Jonathan Marshall: Last time that energy bills increased to a similar proportion of household expenditure was back in 2014, when fossil fuel prices were very high. We saw households, particularly those at the lower end of the income distribution, cut back on social spending, so cutting back on going out to the pub, going out for dinner and going away. There is a reasonable chance that that could happen again this time. In terms of the timing and the way that that sector is faring through the pandemic, that would be quite damaging. You would see businesses that need support having money flowing into them fall, because that money would then instead be spent on energy.

What is different this time is the presence of the price cap and therefore the overnight nature of how this bill increase will happen. It will be much more of a shock. When energy prices increased from 2011 to 2014, they did so slowly. People were moving on and off fixed tariffs and that sort of thing. Now, with such a large proportion of the country on the price cap, this bill increase will happen so quickly and so overnight that spending being reduced in other areas is likely to be on other non-discretionary items, such as bills and things like that.

Q103 **Alexander Stafford:** Picking up on your point, Jonathan, I appreciate your point, saying we will see people spending less on going out and leisure, which will have an impact on the wider economy. I think it is safe to say that a lot of household budgets have already cut out quite a lot of going out, let alone foreign travel, because of the pandemic. Would you say there is already more money in the pot, so people take away from that, so we actually lessen the impact, or do you think that does not make a difference?

Jonathan Marshall: That was just a comparison to what happened last time bills were so high. There is no official data around for this time. For the average home to go from £100 a month to £150 a month overnight, this will put immediate pressure on spending. It is not a pleasant state of affairs for those on low incomes and with lower levels of saving.

Peter Smith: We represent the interests of low-income and vulnerable consumers. We have an aim as a charity to ensure that everybody is able to afford a warm and safe home. Sadly, despite welcome progress over a number of years, that vision is now in serious jeopardy and has never been further out of reach. We know that the people who are going to be hardest hit by these recent increases are those people living on the lowest incomes in the least efficient homes.

You are absolutely right that the trade-offs that people will be making are related to essential goods and services and forgoing those. People used to talk about the choice between heating or eating, but it is getting to a situation where people will not be able to do either satisfactorily. These rises are going to have massive impacts on the poorest households and are going to be not only decimating their finances but their health and wellbeing for a long time to come, sadly.

Q104 **Alexander Stafford:** The NEA stats have said that the number of households in fuel poverty at the end of last year increased by about 4.5 million. This projected rise in April will result in 6 million customers now in fuel poverty, if that is correct. Can you comment on those please? How do you think the fuel-poor and those at risk of fuel poverty should be best supported? What is a solution at the moment?

Peter Smith: Overall, those figures are actually more conservative than they now are, given that we know the scale of the increases. Sadly, we now think that there are going to be 6.5 million UK households that are unable to adequately keep themselves warm and light their homes sufficient for their own wellbeing.

That does not take into account some of the positive impact of the Government's proposals that were announced last week. There are strong reasons for that. We do not believe that the poorest households are likely to benefit universally from a council tax rebate. Millions of households are exempt from council tax in the first place. This heat now, pay later proposal will need to be paid back, so we have not discounted those numbers for those interventions.

In terms of a policy response, we are still bitterly disappointed that the UK Government have not honoured their previous commitment to ensure that any interventions in this space would particularly look to better support those households that are on the lowest incomes or in the most vulnerable positions, which obviously get hit hardest by high energy price increases. In response, hopefully we will get into a discussion about what the regulator can do.

First, we need to fix the support that has been confirmed. There is a genuine risk that those households that are on older legacy prepayment meters, for example, might not benefit as much from a rebate. It will be more difficult to apply that rebate to their energy meter. In addition to that, we have to ensure that the compensatory mechanism to recover those costs is as fair as it can be.

We would strongly urge the Government to consider enabling low-income and vulnerable households not to pay back the cost of that upfront support. There are mechanisms in place that will enable a form of exemption to apply to those households. If we do not do that, we cannot default into what has been the business-as-usual method of recovering these policy costs, which is through, in a flat way, recovering it on everybody's bill, irrespective of their income, payment type or energy usage. That would be the most regressive form of cost recovery and we would strongly urge them not to do that.

Q105 **Alexander Stafford:** I have listened carefully to what you just said. Most of your solutions seem to focus on what happens on the paying back of money, rather than helping people in April. Can you talk a bit more about exactly what the Government should be doing now, rather than worrying about the paying back? What could they do now to help out? Also, you talked about people on prepay meters. It is difficult to have the rebate and things applied to them, but previously the Government have sent QR codes in the post. Why do you believe it is not going to be as good for people on prepay meters?

Peter Smith: First, we have been advocating for an urgent rebate, which could be taken directly off the bill. We believe that that provision should have been much deeper for the most vulnerable households. There is still the opportunity to do that if there was a rethink in Government.

Secondly, we have been highlighting existing mechanisms, like extending winter fuel payments to other low-income working-age households that are eligible, for example, for cold weather payments. That is about 2.4 million UK households—that is not just in GB, where the current support will be targeted, but across the UK—that could benefit from a payment of £300 as soon as that can be done.

There were also a lot of rumours that the Government were going to be extending the warm home discount scheme. Sadly, we do not think that that mechanism has been adjusted at all from the consultation proposals that were released last summer, so prior to the energy crisis. Making more people eligible is not going to be an adequate form of response, because, essentially, more people are going to be competing for fewer resources. You mentioned a second part of your question. If you would not mind repeating that, that would be great.

Q106 **Alexander Stafford:** It is about prepaid meters. You said that it would be harder for them to get the rebates. In the past, the Government have sent things like QR codes in the post. Why do you think it is going to be harder for people on prepaid meters to have those benefits this time?

Peter Smith: Essentially, there are about 4.5 million GB prepaid customers. About 2 million of those have smart meters, so they should be able to net the money off automatically, so we are less concerned about those. For those households with older legacy prepay meters, when previously the Government undertook this type of exercise, under the Government's electricity rebate, there were challenges trying to redeem vouchers for customers that were on that older legacy prepay.

It will require some bespoke form of communication and hopefully a campaign and active channels of advice to encourage those households to take up that support or redeem those vouchers. From memory, there was about a 10% fallout. Even on those figures, which are pretty generous really, because it was only a £16 rebate last time, happening over two years, and this is a much bigger rebate happening over a much shorter period of time, it will mean that about 250,000 households could be at risk of not being able to adequately redeem the support that the Government are making available.

The challenge there is compounded by the universal collection mechanism that I mentioned earlier in terms of the levy. While there is doubt and uncertainty about all households' ability to be able to access the £200, there is grim certainty that, if we plod on and just apply this £50 levy in a very blunt way as the cost recovery mechanism, they will undoubtedly be hit by those costs, particularly through standing charges.

Q107 **Alexander Stafford:** Focusing a bit more back on the prepayment meter customers, because they are going to see the cap limit soar to over £2,017, Peter, what extra support should there be for the prepay meter customers? Then I am going to bring in Emma to discuss prepay meter people.

Peter Smith: Essentially, we strongly articulated our concern when Ofgem made a decision to remove the previous bespoke form of price protection that there was in the market covering prepay customers and merge it with the wider default tariff cap. That has had a clear and negative impact on those customers, probably in the region of between £60 to £100 per prepay customer, in terms of the difference between those two forms of protection.

We know that those households who are on prepay are going to face the biggest increases in cost as a result of the rises that are increased—overall, about £200 million more from April over the course of the year. It is a massive amount of extra money that PPM customers are going to be facing, despite the fact that they are already, in many instances, in significant debt. We would like to see Ofgem work with the UK Government to investigate the case for a much stronger form of protection, particularly for the poorest prepaid customers, and investigate a new form of protection in the form of a mandatory social tariff. We think that that would offer low-income households an opportunity to be protected in a much deeper way than the current price protection works in the market.

Emma Pinchbeck: Pete has admirably covered many of the issues, but I will add some evidence to what he said. In terms of the impact, I have some figures that we have looked at about how many households this affects. If you are just talking about the price cap change, it is worth noting that more people are on price cap tariffs because of the changes in the market. We think it is now about 22 million households affected. That is up from 17 million in October, so more households are impacted by the price cap rise.

In terms of looking across the economy and spending, it is an industry statistic and, I will admit, my back-of-the-envelope maths. Basically, we assumed that bills of around £2,000 work out at around 7% to 10% of even the median household, according to the ONS, of approximately £29,000. Some 7% to 10% of their disposable income will go on energy costs now, so it is a sizeable chunk of what is a wider issue. That is why we were saying that there has to be a Government role here. This is bigger than just energy. It is a whole-economy issue.

In terms of fuel poverty and PPM customers in particular, we have 2% more people on the priority services register. We can already see that in the industry. We are seeing more enquiries coming forward and more people in fuel stress. The fuel poverty issue is getting bigger too. Pete has updated some terrifying figures: about 6.5 million homes in fuel poverty through this period. As you have noted, a lot of the support is due to come in October, so we can expect those impacts to run.

Q108 **Alexander Stafford:** On that point, do you agree with Peter's uplifting from 6 million households in fuel poverty to 6.5 million? That is quite a big extra increase.

Emma Pinchbeck: I have not seen those figures. I will check them after.

Q109 **Alexander Stafford:** Is that the sort of number that you are seeing?

Emma Pinchbeck: We had 6 million down and that is consistent with previous rises. If you think about that number and the amount of disposable income we are talking about for even median households, that seems more than plausible to me. Again, we were raising these points with Government in the run-up to their announced relief. The issue is just bigger. Across the whole economy, there are more people in fuel poverty, more customers affected and so on.

In terms of targeted support, we have always said that vulnerable and fuel-poor customers should be the priority. We got the detail of the announcements at the same time as everyone else, so we are working through things like whether this is the most effective way to target it and whether it is enough. In short, there is a rebate piece and a spreading of costs piece, questions about how quickly both can be brought in and how well targeted they can be, which is for when we have looked at the detail. We are working closely with the regulator and industry on the detail.

There are other things that could be done. There was a long list of solutions that we proposed. There are still options available. You could move VAT off bills. You could keep the policies but move policy costs into taxation in the long run. We know that investing in energy efficiency in the long run will also help fuel-poor households in particular. As Pete says, you could go beyond what the Government had already consulted on with the warm home discount and so on.

For PPM customers, the issues are the ones Pete raised. There is a higher cost to serve them administratively, which Stephen might have more detail on. That is why there is a difference in the price cap. In terms of what would help, more of those households having smart meters definitely helps. That will help them get the rebate.

In terms of what we are after as industry, we want as many vulnerable customers to get support as quickly as possible. We got the detail at the same time as everyone else. For things like prepayment customers, rural households and business customers, there is either a gap in support or we are working through the detail to see how they can get it. We can follow up in writing as those details come forward.

Q110 **Alexander Stafford:** I am quite pleased that you have given a positive message for smart meters for once, which is what the industry has been struggling with for many years.

I have one last question. Peter was quite damning about the Government support and the new Government policies. He was critical that they are not really helping the right people. I know you are still working through your numbers. From what you have seen already, would you be as critical as Peter? What is your view on it, in a sentence?

Emma Pinchbeck: Having been calling on Treasury to act, there has been a huge shift in Government between where they were in September and now. I do not think that the Government originally thought that there was a role for them in supporting customers. The scale of this price increase and what it means for the economy and householders has become apparent and they have moved. That is a good thing. No one in the industry, having called for Government to act, is going knock the fact that they have. In particular, it was the Chancellor and the Treasury that have moved.

Overall, if you look at the boxes ticked, it is the right sort of approach, in that they are trying to acknowledge that it is a whole-economy problem, deal with inflation by looking at median households and try to do something for fuel-poor households in particular and try to bridge the gap with the local authority fund that they are putting in place. There were other things that they could do and could still do. The message is that it is good.

As I said, we, as industry, got the detail at about the same time as everyone else, and the devil is in the detail of how effective this is. For all those groups I discussed, there are some gaps, business customers being one. Lastly, a lot of the support does not come in until October. For industry, we see this as a bit of an enduring crisis and it is going to have to stay under review, both in terms of what the details mean and in terms of whether this crisis continues. It was really welcome to hear the Energy Minister say exactly that. That is our take as of now and we are going to keep working on the detail with Government.

Alexander Stafford: It is good to hear that you are not as critical as Peter. Of course, it would not be your job unless you wanted the Government to go further and do more.

Q111 **Tonia Antoniazzi:** Emma, we have just seen this morning eye-watering profits being made by large oil companies. Would you welcome a windfall tax? Would this go some way to addressing the problems that we have now?

Emma Pinchbeck: On windfall taxes, we were saying to Treasury that, if it is about covering the costs of these proposals, the first thing to note is that the case we were making to Treasury for intervention was around the inflation risk to the economy. The previous energy price rises were worth about 1% to 2% on inflation. We think it will be the same again with the price rises coming and the same again with the price rises coming in October. So 1% to 2% on inflation, again on my back-of-the-envelope maths, is about £10 billion to £20 billion of Government debt, because of the way Government inflation works.

We felt that there was room, by avoiding the cost of inaction, to take action to support householders. In terms of windfall taxes more generally, I look after the energy suppliers and the people who build infrastructure in the system. The energy suppliers made a negative margin over the last few years. It is part of what we have been talking about here. On the generation infrastructure side, the Climate Change Committee says we need £50 billion a year to deliver net zero, most of which will be private capital. It is only talking about £4 billion to £6 billion coming from the public purse.

What we have seen from windfall taxes on generation infrastructure in particular is that you scare off investment. We have seen that in some of the markets where they have brought windfall taxes in. For us, with our agenda, first we need a stable supplier market. We would not be suggesting windfall taxes there. There is not money. That is why we are in this mess. On the wider case, any windfall tax that affected that massive investment needed for net zero would be a real problem for our members.

Q112 **Tonia Antoniazzi:** I am just going to go back to Peter and Jonathan. You have already touched on this, Peter, quite a lot, but I want to go to Jonathan and see what he says. Do the measures announced by the Chancellor of the Exchequer on 3 February adequately support households, particularly the vulnerable and those on low income? While we probably know from what we have already heard today, if it does not, why does it not?

Jonathan Marshall: I guess there are three top-line takes from the announcement last week. One is how much money is made available. It is clear that, for low-income households, even if they get the full level of support, so the £200 discount and loan back and then the money through council tax, that only offsets about half of the bill increase. There is no other way round of saying that. It is just not enough money. That is still a huge shock for energy bills.

The second point is who gets it. The rebate for everyone is a very universal approach. The method of delivery through the council tax system is also very universal. We think only about 20% of households will miss out on the extra payment through council tax, because the vast majority of homes are A to D rated. Those that miss out will be in areas where property prices are more expensive, so less than one in 10 households in the north-east and north-west will miss out, compared to more than three in 10 in London and the south-east.

Within that, there are a number of households that are on low incomes but in high-value properties, if they do not own their house, for example. More than one in 10 of households in the lowest income decile will miss out on this rebate. That adds on to the people who miss out on it through other means as well, such as, potentially, how you pay for council tax. If you do not pay through direct debit, there seems to be a lot of uncertainty at the moment about how that money will be given to you. There are people who do not pay council tax themselves, so students, for example, or people who move housing situation during it, so they move in and out of parental accommodation, or in and out of cohabiting, shared houses or things like that. They will also miss out.

The third point is how it is funded. Agreeing with what Peter said earlier, making people take on a loan to pay their energy bills is not a particularly sustainable way of doing things. If energy prices stay elevated, it is going to be an additional charge on bills for years.

One thing we were looking at before was delivering a similar rebate, in terms of bill discount, by funding the levies part of bills through taxation, pending a review. There is supposed to be a Government review of how these are going to be funded in the longer term.

We looked at whether you could pay for this, which is about £180 or £190 for a household with average energy consumption, through taxation. That would mean that households did not effectively build up a debt on their energy bills. Then you could revisit that situation through this impending energy fairness review and see whether that was the right way to do what is both a means of paying for these things more progressively and a vital step in decarbonising particularly domestic heat.

Q113 **Tonia Antoniazzi:** Jonathan, to what extent is it concerning that the support package announced by the Chancellor does not set out a plan for the medium term, particularly in the likely scenario that we are going to see another energy price cap rise in October? What could the Government be doing now to mitigate the impact of a rise in the energy price cap in October?

Jonathan Marshall: All the plans seem to be based on the idea that energy prices will wane going into next year. As the representatives of Ofgem were saying earlier, predicting wholesale markets is incredibly difficult. If these prices stay high, that will highlight the fact that there is no medium-term element to this plan.

You could look at more structural change to the system, so changing the way that the electricity system works, how electricity is generated, how gas sets the price, despite a lot of electricity not being generated from gas. You could look at how dependent we are on gas in our homes, so start to accelerate whatever programmes can be done that would not be overly hasty to try to particularly shield low-income households from energy costs. For example, the Energy Company Obligation scheme, which is ramped up from April, could potentially be amended to speed it along a bit or frontload it.

Also, within the electricity sector specifically, if prices remain elevated through gas, there are also a couple of other factors coming down the line. Our nuclear power station fleet is getting pretty old now. A number of power stations have announced that they are going to be closed already. There is no plan for what happens if Hinkley B closes. I think that is planned to close this year, and then there are two more power stations set to close in 2024. That will all increase the electricity system dependency on gas in the medium term. There is no plan as part of what the Government announced to reduce that and shield households from what could be high energy prices for the long term, or even higher if various geopolitical events continue to look like they are going to happen.

Peter Smith: Can I underline that we take absolutely no pleasure in being critical of the UK Government or Ofgem's handling of this crisis? We would have dearly loved to row around exactly what the Government had said they were going to do, which is to provide more protection and support for low-income and vulnerable consumers as the priority. I want to underline that point: that we are not in permanent opposition to what the Government are doing. We will try to work proactively. We were engaged yesterday in a call from BEIS about how this new heat now, pay later mechanism will work, and we will engage on that detail.

There is not going to be any direct support to reduce energy bills until October. There is going to be a gap from when the prices go up massively in April right through to October. Yes, there is some shielding from council tax rebates, but I have mentioned that that does not directly address energy costs or present value to those people who are currently receiving relief from council tax. There is going to be a huge hiatus. That is going to need to be responded to. That surge in demand of people needing support is going to need to be responded to.

As well as an advocacy organisation, we are an organisation that delivers direct support to low-income and vulnerable consumers. We are gearing up for an absolute firestorm. We are already seeing huge surges in demand and we have to be honest in terms of our abilities as a charity, only a relatively medium-sized advice provider, to be able to cope with the scale of challenges and demand for our services that is coming down the track.

I know that that is also the case for much larger organisations, such as Citizens Advice. We need to pre-empt that surge in demand, particularly for advice, but also for things like debt relief, crisis forms of top-ups and top-ups for prepayment meters. Those hardship funds that are out there will run dry very quickly, given this situation, and certainly current mechanisms are not adequate to cope.

I want to underline that one particular concern in that context is that organisations such as ourselves and many hundreds of others are almost entirely reliant on warm home discount scheme industry initiatives as the key way of funding the majority of our activity to provide energy advice, income maximisation measures, debt relief and that type of activity. It is very likely that there is going to be a huge hiatus between when we see the regulations, which we still have not seen from the UK Government, and when that support is going to be delivered.

It is likely to be in October by the time we even start signing agreements with energy suppliers about what type of support we need to put in place. There needs to be some sort of bridging provision around that advice and support; otherwise, unfortunately, we will not be able to respond to the huge surge in demand that we are likely to see.

Q114 **Tonia Antoniazzi:** Peter, going back to the heat now, pay later scheme that you said you had spoken to BEIS about, when that £200 comes out automatically in equal £40 instalments from somebody's account, what if that person is vulnerable and has never had an account before? Will that automatically come out of their payments if they are not actually receiving the benefit now?

Peter Smith: It is probably too early to say that it will, but certainly the early indication we have received is that Government want to keep things as simple as possible, and that means recovering the charge in an equal way of £40 instalments over five years. That money will just come off the meter every month, irrespective of who the occupant is or who the meter user is, which would be very regressive.

Mark Jenkinson: I just need to correct the record there. Everything we have seen from the Department suggests that, while it is out for consultation, it will actually be an increase in standing charge, not any equal instalments of £40 in any way being taken back at all. The fact sheet published on the gov.uk website is clear that they expect it will probably be taken in an increase in standing charges.

Q115 **Chair:** Thank you for that point. Peter, there is no need to respond, so thank you for that.

Emma Pinchbeck, there is a point here about the rebate not being targeted. I said earlier, for example, that I am actually in a great long-term fixed deal with my supplier; they are probably selling energy to me at a loss, which I know is not great for them, but it is fine for me. I do not want the £200 but I cannot refuse it, can I?

Emma Pinchbeck: As I think Jonathan said in the previous panel, these are all decisions for Government. As I said, we are getting the detail in live time, so some of the points that Pete and Jonathan are making around whether the amount is enough, how it will work, how the payments will be taken and whether it is effectively targeted are all questions that get better or worse depending on the exact methodology and how they administer it.

The other thing I would say is that we are going to keep pressure on Government around supporting households if we need to. In terms of you, Darren, and your energy bills—

Q116 **Chair:** You do not need to answer the question about my bills. That is fine.

Emma Pinchbeck: You can also donate to the NEA and other fuel poverty charities if you feel you want to.

Q117 **Chair:** I would be very happy to, thank you. I am conscious, Stephen Fitzpatrick, that you have not had a chance to reflect on the Government's announcements last week. Is there anything that you want to add?

Stephen Fitzpatrick: Like Emma, I would say that we have been calling for the Government to make a broader intervention to help dampen the volatility that we are seeing across the entire UK consumer group. It is pretty obvious that this unprecedented spike in wholesale prices is largely as a result of this big geopolitical situation that we have. It is something completely outside of consumers' control. The mechanisms that we have seen to dampen the big spike are welcome, not least because of the impact it would have on the inflation-linked cost to Government.

Is it well enough targeted? The numbers tell their own story. The average bill a year ago was about £1,000. 2 million people were deemed to need £140 of help through the warm home discount scheme. The average bill has gone up by £1,000 and the warm home discount has gone up by £10. Those numbers tell their own story.

Q118 **Mark Pawsey:** We heard from Ofgem about changes. It is going to do lessons learned and we heard a bit of a mea culpa about how it had allowed too many poor entrants into the market. Emma, were any of those 30 companies that failed members of your association?

Emma Pinchbeck: Some of the earlier ones that failed were, but I have not actually had that many members fail, with the exception of Bulb, as a very big supplier. It was a member of ours. I semi-joked last time that, in itself, being a member of a trade body suggests a level of professionalism, and I think that that is true.

The point here on the failures is that some of it has been found to be about bad actors. A lot of it has been found to be about the regulatory structure. Then, on top of that, we have a gas price crisis, which, as Stephen and others said, is a global one, affecting all markets.

Q119 **Mark Pawsey:** If it had been a little more thorough, it might have prevented some of these undercapitalised companies going in and some of the problems we have seen. Do you accept its apology, in many ways, for what has gone wrong? Do you think that it actually is going to do what it is going to say and have a tighter control over players in the retail market?

Emma Pinchbeck: As we have said for a long time as industry, we were concerned about that focus on as many market entrants as possible and on things like collective switching as the wrong measures for what customers wanted and certainly the wrong measures for a stable market. It is exactly what we were asking for when I last gave evidence to you. In that sense, it is welcome. We are working with them on the proposals.

Lastly, again it comes back to retail being incredibly valuable in the future energy market we are trying to build. We want to see it prioritised alongside things like making sure we swap over to renewables in a sustainable way, making sure we build a more resilient energy system. The retailers are a huge part of that in bringing customers with them. A more positive relationship, where we understand what future energy services are and what consumers want is the world we need to work to.

We are working on all the short-term changes. The apology or the reset of the relationship is welcome. Government saying that they are going to look at their long-term retail strategy is welcome. Inasmuch as we welcome the innovation in the market over the last decade, we recognise as an industry that there was a need for reform.

Q120 **Mark Pawsey:** In terms of price, they are looking at two things: price cap contracts and a change to a review quarterly of the price cap. Are those going to make any difference?

Emma Pinchbeck: The more regular reviews of the price cap and certainly looking at the methodology is a welcome step. We have all talked about the sudden shock to many consumer bills because of the price cap only being evaluated every six months. That is a very sensible first step to try to smooth that. Then there are wider conversations about market reform and where we want to get, and the price cap is only part of that. It is a very big industry, with mixed views, but, broadly, we feel positively about what Ofgem are now trying to do.

Q121 **Mark Pawsey:** Stephen, do you have any thoughts on what you heard from Ofgem earlier today?

Stephen Fitzpatrick: As Jonathan mentioned, it is trying to find a balance between something that is simple enough for consumers to understand or have trust in, which is difficult in something as abstract as energy. Very few people understand how the energy system works. It needs to be something that is simple enough that consumers can trust and have confidence in, but that also addresses the fact that we are part of a global energy market and there will be volatility.

It is finding a mechanism that will smooth prices for customers and give them transparency and confidence, but still allows for companies like OVO and members of Energy UK to effectively hedge. That is the right balance. The quarterly price cap review is probably the most efficient way of doing it, but it is still under consultation and there is a lot of dialogue now, which is really positive.

Q122 **Mark Pawsey:** I guess you would be happier to have fewer competitors.

Stephen Fitzpatrick: The funny thing is that I do not think it is really a function of how many competitors there are. In the past, when we had 60 or 70 different market entrants, very few had a differentiated consumer proposition. Everybody was competing on price, but at an artificially low price. You end up with a situation where it looks good for a little while and then, as always, things that are too good to be true do not last forever.

Q123 **Mark Pawsey:** You would like to see a higher barrier to entry as well then.

Stephen Fitzpatrick: I would like to see more rigorous regulation, more expert regulation. I do not think that it is necessarily a question of higher barriers to entry. If there is a company or start-up that thinks it has an innovative customer proposition that is going to be valued by consumers, it should be able to enter the market.

It should not be able to benefit from a working capital arbitrage where it can acquire lots of customers at an artificially low price, use customers' balances to fund working capital and then end up operating at a loss for several years, go bankrupt and owe consumers and the industry tens of millions of pounds. We have seen that time and time again.

There have been other successful new entrants that have survived even the recent volatility and we welcome the competition. We welcomed it in 2016, when the first SoLR happened, and we welcome it today. It has to be something that customers value. It cannot just be artificially low prices.

Q124 **Alan Brown:** To follow on with questions for you, Stephen, picking up on that, earlier on you were quite scathing about the quality of some of the companies entering the market. You seemed open to directors being held to account.

If you look at OVO, OVO has been fined £9 million from Ofgem for overcharging customers. At the moment, OVO has proposals basically to get rid of 1,700 jobs, almost a third of the workforce, and the unions and the local members for Perth have been quite scathing about the fact that they feel that you have not been engaging with them. Are you in a position to point out the failings of these other companies?

Stephen Fitzpatrick: There are a few different points you have raised there, so I will go through them one by one. We received a fine back in 2019, I believe, for just over £9 million. It was mostly relating to an issue they had of underestimating consumption through one particular winter. We have worked hard with Ofgem and tried to resolve all those issues. The issues affected a relatively small number of customers and it was a relatively large fine.

We have taken that constructively and we now have 40 people that work in our compliance team. That is an indication of the kind of complexity and the seriousness with which we take the regulations. We believe that regulations to protect consumers should be much simpler. We have hundreds and hundreds of pages of regulations that we are currently trying to meet. Some of the regulations are in fact so complex that they are impossible.

Q125 **Alan Brown:** Are you saying it is the regulations' fault, rather than OVO's fault?

Stephen Fitzpatrick: No, I absolutely accepted that we made a mistake. We accepted that at the time, we accepted our responsibility and we accepted the fine.

In relation to redundancies, we have announced a voluntary redundancy programme a few weeks ago for 1,700 roles. This is part of a broader range of measures that we have been putting in place to modernise and digitise the SSE business that we acquired in 2020.

Q126 **Alan Brown:** When you took over SSE Retail, was that always part of that forward-looking business plan, this digitisation and shrinking of the workforce by such a large number? If so, did you make clear when you took over SSE Retail that you were looking to get rid of a third of the workforce?

Stephen Fitzpatrick: To put things in context, in 2021 we created 1,450 new roles, many of them in zero-carbon advice, new energy technology, software engineering and digitisation. That is 1,450 new roles, with an average salary of just over £34,000, so well above national average salaries.

As part of the digitisation and the restructuring of SSE, one thing that was clear to us was that the previous owners moved to offshore a lot of customer-facing roles. That was something that our customers did not want. They wanted to speak to somebody locally. As part of this new measure that we announced a few weeks ago, as you mentioned, we are reshoring 1,000 customer-facing roles and spending £20 million on training for our existing members and those new members to become experts in zero-carbon technologies.

Those are jobs that have been offshored that we are now bringing back. We are opening a new academy in Glasgow to build a centre of excellence for zero-carbon advice. That is all part of the new package and it is part of becoming an energy company that is fit to help consumers with the challenges that they face in the future.

In terms of the plans that we had when we acquired the company, six weeks after we acquired SSE, we were told by the Government that nobody was allowed to leave their homes. Six weeks after we acquired the company, there were nearly 7,000 employees where we now needed to find a way for them to work from home. We needed to find a way to support consumers. We needed to find a way to support consumers with prepayment meters who could not leave their homes to top up their energy meters. Nothing was as we thought it was going to be.

Q127 **Alan Brown:** You got Government support, in terms of £17 million of the job retention scheme.

Stephen Fitzpatrick: There was the furlough scheme, yes. We had 3,400 people who were on the furlough scheme for just over three months. That was in 2020. One thing that we found really clear, as I said, in the last two years since we acquired SSE, is that the energy market is changing very quickly.

The customer behaviour has changed unrecognisably in the last two years. Customers would now much rather speak to us on videoconference and speak to somebody in the UK. They would rather, and increasingly so, use digital channels. We realise that not everybody can and not everybody wants to use digital channels. That is why bringing back 1,000 customer-facing roles to the UK is part of this package.

I would like to add that we increased the training allowance and training budget to £20 million to help upskill members of our team to help advise consumers. We also increased the minimum pay across the OVO Group from under £10 to £12 an hour. The whole series of measures are around, first, equipping our team to better advise consumers, investing in digitisation and low-energy technologies and investing in higher-skilled, higher-paid jobs. Unfortunately, as part of that, we have a redundancy programme. Every single one of those new roles is available to the members of our team who will be offered redundancy.

Q128 **Andy McDonald:** We have talked about reshoring. I am sorry to interrupt, but there are also jobs being offshored within your organisation. Do you want to say a little about where they are going? How many jobs are being offshored, because that is a grave concern to the workforce?

Stephen Fitzpatrick: On balance, we are bringing jobs back.

Q129 **Andy McDonald:** That was not my question. How many jobs are you offshoring?

Stephen Fitzpatrick: I will have to come back to the Committee with that exact number.

Q130 **Alan Brown:** You are talking about 1,000 coming back, but 1,700 redundancies. Is there a net workforce increase in the UK or decrease?

Jonathan Brearley: I will have to come back to the Committee with that exact figure. We are currently facing a massive skills and labour shortage in the UK. We have had hundreds of companies contact us to be put in touch with members of our team that have been offered redundancy, and on a voluntary redundancy basis. We have more than two jobs that we have been notified by other employers that want to hire these people.

We have increased the minimum wage. We are increasing training. We are helping the people who are affected by the redundancy programme, who have volunteered for redundancy, to find other work. This is all part of a dynamic 21st century economy. I understand that the change is difficult for some people, but this is what a thriving, dynamic, digitised economy looks like.

Q131 **Alan Brown:** Another issue that has raised concerns is £40 million of loans that have gone out from OVO into other companies that you own. By default, customers are, effectively, carrying these loans that you are putting into other companies. Are these loans appropriate? Are you willing to share that information with the unions, in terms of open and transparent books? That is one of their requests.

Stephen Fitzpatrick: I do not recognise any loans. I read the number £40 million once, but I do not recognise that number. There is a brand licence agreement between OVO Energy and the holding company that I set up, Imagination Industries.

Q132 **Alan Brown:** If I was to write to you, via the Chair, you would respond about that information.

Stephen Fitzpatrick: This is a relatively common business arrangement. Virgin Group, easyJet group and so on have exactly the same arrangement. Everything has been in place since 2014. It is all documented in Companies House. All the funds are located in the UK. We pay tax in the UK. I have used the money to invest in companies that are based in the UK that have created hundreds of jobs in the UK. It is all completely available for anybody to—

Q133 **Alan Brown:** If I was to write to you with questions, you would respond.

Stephen Fitzpatrick: Of course, yes.

Q134 **Charlotte Nichols:** To come back on those questions from Alan, do you think that it is acceptable to take over £17 million in UK Government funding through the job retention scheme while making these redundancies. In answer to Andy's question, I believe it is 183 jobs that are being offshored to South Africa. This is money that was given to your company by the UK taxpayer in order to protect UK jobs, something that you are not doing.

Stephen Fitzpatrick: In 2020, as we discussed, the whole of the UK economy ground to a halt and we had this extremely uncertain situation. The Government set up the furlough scheme to help preserve jobs in that time of extreme uncertainty. We had 3,400 employees who went on furlough. Every single penny of the money that we received from the Government went to pay those individuals.

Beyond that, as a company, we agreed and made the commitment that we would not cap their furlough payments at the £2,500 Government cap. We topped up the rest on an unlimited basis. All the directors and senior executive of the company at the time took a 20% pay cut and offered that money to individuals who were affected significantly by the lockdown in the coronavirus. We have not paid any bonuses for the last two years. In fact, all the money that we received went exactly to the purposes it was for.

As we move forward, as I said, we announced a redundancy programme. It is a voluntary redundancy programme. Every single person who has taken redundancy has opted to do so. We have also, as I mentioned last year, created 1,450 new jobs. I understand why there is concern when people hear the word "redundancy", but, over the last two years, if you put everything together, we are investing in the UK economy. We are investing in skills.

As I said, the thing that the UK economy needs more than anything right now is talent and access to labour. There are massive labour shortages. Businesses cannot hire enough people. We looked at all that when we looked at the timing for this redundancy programme. We thought that, if you are ever looking for a new job, this is the best time in a generation to be looking for a new job.

Q135 **Charlotte Nichols:** You are doing your employees a favour by making them redundant.

Stephen Fitzpatrick: We have offered a voluntary redundancy programme. We have a number of roles that, due to changes in consumer behaviour and changes in the energy market, are not required. We treat everybody who is affected with respect and compassion, but we cannot simply keep people on the payroll, employed in jobs that are no longer needed. We can offer them retraining and skills and offer them new roles, or redundancy. In many cases, employees have opted for redundancy.

The challenge that we all face is that we need to help consumers go through this transition to net zero. We need to run our businesses as effectively as possible, but the technologies and skills that we need to get to net zero are quite different from those that we have had in the years gone by, so we are investing in skills training and increasing the minimum wage.

I would like to go back to that. At the time that we said, "We are reducing the number of roles in the company", we made a commitment to say, "We only want high-paying jobs". We have lifted the minimum wage in our group by nearly 24%. While I understand that people get concerned about talking about redundancies, having better-paid, higher-skilled jobs is what we should all be looking for. That is the only way that we are going to escape this low-productivity trap. As we grow our economy, coming out of the coronavirus recession, this is something you are going to see more and more of: higher-skilled, higher-paid jobs.

Q136 **Charlotte Nichols:** Do you stand by your advice to customers struggling with the increase in their costs of energy to keep warm by doing a few star jumps or having a cuddle with their pets?

Stephen Fitzpatrick: I have already apologised for this on numerous occasions. I am happy to apologise again. The advice was ill-advised, insensitive, inappropriate and should never have been sent. To Peter's point, we recognise that we are not always the best-placed organisation to give advice to customers, either on energy efficiency or on managing household finances.

In a roundtable a few weeks ago with the heads of the NEA, StepChange and Citizens Advice, I was shocked by the fact that, despite this enormous cost of living increase that we are seeing, many of these charity organisations simply do not have the funds to hire enough people to answer the phones. They do not have enough money. We have a joint initiative with StepChange that we just announced recently. We are funding an additional £2 million and making available 50 agents for them to give better advice to customers. That is going to enable about 250,000 extra consumers to benefit from advice from StepChange.

We know that it is not just energy. The rising cost of living is an enormous problem for millions of households. I would call on this Committee to urge the Government to make more funding available for those organisations that are obviously much better placed to support consumers than we are. We did not get it right on this occasion and I hold my hands up and say that it was an embarrassing mistake. I take the offence that we caused to customers very seriously.

Q137 **Andy McDonald:** I am grateful for Mr Fitzpatrick's candour. He has already indicated that he will respond to Alan's questions if they are put to him from this Committee on a joint basis. Would he understand that, also, the workforce are gravely concerned here? The trade union has to do its job and it has concerns about this web of companies and these loans. We have Imagination Industries. We have Vertical Aerospace with money shipping out. It is concerned that the focus is not on sustaining the business and keeping those people in work.

I am asking you now whether you will make sure that those books are open to discussion with Unite the Union. It is critically important. People are not skipping along to redundancy. They are very upset about losing their jobs, so it is important that there is transparency and openness about the information that is available. Hopefully, you could undertake to do that.

Stephen Fitzpatrick: I did not quite get the question, sorry.

Q138 **Andy McDonald:** You could undertake to open the books to Unite, in short, because it is very important that people understand exactly what this web is, because they do not get it, that this company is not focused on what it should be doing.

Stephen Fitzpatrick: We have had a really good engagement with all of our unions over the past few months. If there are any specific questions, again, everything is already documented in Companies House. Everything is based in the UK, with taxes paid in the UK and jobs created in the UK.

Q139 **Chair:** We understand that. Mr Fitzpatrick, you must understand that, if you have taken £17 million in furlough money from taxpayers and then I think that it is £21 million between OVO Group and OVO Energy coming out in brand royalty fees, at least optically, that does not look very good, does it?

Stephen Fitzpatrick: Again, the licence fee between OVO Energy and Imagination Industries has been in place for eight years. It is all documented at Companies House. It is a normal business relationship between a brand holder and a licensee and it a normal business cost at OVO.

Q140 **Chair:** You are the brand holder, are you not?

Stephen Fitzpatrick: I am.

Q141 **Chair:** You could have made the decision not to take the royalty fees in the same year that you took £17 million in furlough money.

Stephen Fitzpatrick: The £17 million went to the employees—every single penny of it.

Q142 **Chair:** I understand that. The point I am trying to get to is that it was you, was it not? You could have taken the decision not to take in the brand royalty fees.

Stephen Fitzpatrick: If it were not for the income that Imagination Industries received from the brand licence agreement, it would not have been able to invest in Vertical and pay the salaries of the people that work at Vertical Aerospace, based in Bristol. It is all very open and transparent. It is documented. It is normal. These are normal business arrangements and that money was used to invest in and pay for UK jobs and create UK companies.

Chair: Thank you. There were a number of questions that I think we have follow up on, so we will make sure we clarify that and write to you afterwards. We will look forward to getting the answers from you. We are out of time, so that brings the session to an end. Thank you on the screen to Peter Smith from National Energy Action and Jonathan Marshall from the Resolution Foundation and, in the room, Emma Pinchback from Energy UK and Stephen Fitzpatrick from OVO Energy. We call this session to an end.