



Energy and Climate Change Committee

Oral evidence: [Ofgem Annual Report and Accounts 2013-14](#), HC 932, Tuesday 27 January 2015

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Members present: ; Tim Yeo (Chair); Sir Robert Smith; Ian Lavery; Albert Owen; Christopher Pincher; Graham Stringer; Dr Alan Whitehead

Questions 1-89

Witnesses: **Dermot Nolan**, CEO, Ofgem, gave evidence, gave evidence.

Examination of Witnesses

Witnesses: **Dermot Nolan**, CEO, Ofgem, gave evidence.

Chair: Thank you very much for coming in. We are so keen to see you that we are starting three minutes early.

Dermot Nolan: I am impressed by the alacrity of the Committee.

Q1 Chair: We dispatched our private business very quickly. I think you would like to say a few words to start with.

Dermot Nolan: Just very briefly, a short opening statement. Thank you for inviting me to give evidence on Ofgem's Annual Report and Accounts 2013-14. I look forward to your questions. Much has happened in the last year, indeed even in the last few weeks. I will briefly outline some of the work that Ofgem has been doing over the past year, but of course, I am happy to answer questions about the annual report and our more recent activity.

We have been working very hard over the last year. We published our corporate strategy recently, which explained how we plan to deliver our key outcomes and our key methods of doing so. In particular, we are looking at the issue of bills and whether they can be lowered further. We have welcomed the initial set of price cuts as a step in the right direction, but we have also consistently called for suppliers to explain the growing gap between wholesale and retail prices. That is not all we have done. We have tried to reduce customer bills in other ways. Our RIIO price control

has reduced next year's electricity distribution tariffs, plus our enforcement work has increased. Since 2013, we have imposed significant financial penalties and given considerable consumer redress. We have also tried to focus on the issue of vulnerability, on our RMR reforms which are now complete and, of course, we referred the market to the Competition and Markets Authority, which I believe is due to give an initial report in May and June.

Our work in Government programmes is expanding. We have launched our domestic renewable heat incentive which, I am pleased to say, we managed on time and on budget. We face a market that is low on certainty and certainly has plenty of challenges. As the regulator, we hope to meet those head on, as best we can.

Q2 Chair: I have made a number of comments about Ofgem publicly in the last few weeks, but I hope you will have noticed that I have exempted the new management team from my criticisms about what I thought was a pretty slothful performance by the previous team on some issues.

I would like to start with National Grid. You have a role in holding National Grid to account for various things, and that includes its assessment of the capacity to procure in the capacity market. In practice, how do you do that?

Dermot Nolan: The decision on the level of capacity to procure through the capacity auction rests with the Secretary of State. In making his decision, we obviously advise him on what we think is the appropriate level of capacity, as does National Grid. We offered views as to the appropriate level, as did Grid, and ultimately the Secretary of State made a decision. I cannot really comment further other than to say that it is his decision.

We are working with DECC at the moment, and potentially commenting on Grid, on how interconnectors can be taken into the capacity auction process. At the moment, in my view, the assumptions underlying the effect of interconnectors are reasonably conservative. They perhaps do not give enough merit to the genuine capacity benefits that interconnectors can bring. We are advising DECC at the moment on how they can best be taken into account for future auctions, though, again, it will ultimately be the Secretary of State's decision.

Q3 Chair: That is a very interesting point and it leads directly to one of the concerns that I and others have expressed. There is a danger when we look at capacity that we are still driven by a 20th century mindset which goes back to the days of the Central Electricity Generating Board, when enormous care was always taken to make sure that there was no risk of running short at any time. Since privatisation, quite rightly there has been some move towards a leaner and meaner approach, but there is still an inclination to err on the side of caution, because of the horror of electricity supplies being cut. What you have just described about interconnection reflects that point. Are you able to address that? Is it, in effect, an opportunity for Ofgem to look at National Grid's recommendation and advice to the Secretary of State, and give your opinion about whether that is too conservative an assessment?

Dermot Nolan: I do think that is an option open to us. It is something I wish to do. In many ways, I wish, frankly, to give our own estimates to the Secretary of State, which he can choose to agree with or not. It is entirely at his discretion. This is not a criticism of Grid, but I would like to feel

that we operate in an independent fashion in advising the Secretary of State on any decisions he would make.

As you say, there is an inherent conservatism about keeping the lights on. That is a perfectly reasonable and rational conservatism. However, the Government have set a security of supply standard. The key is to see how we can achieve that in a reasonable manner. Currently, my belief is that interconnectors are offering genuine security of supply benefits. People come along and say that they are not quite the same as a power station because power can flow both ways. I accept that, but one of the tasks we are trying to advise DECC on at the moment is capturing what we would call the essential de-rated capacity of an interconnector. What is the security of supply benefit of an interconnector that is 1 GW compared to a power plant that is 1 GW? It is clearly less, but how much less is something that we are working on and want to advise the Secretary of State on.

Q4 Chair: Even though power can flow both ways, if the price was sufficiently higher in this country, it would tend to flow this way because that is how interconnectors make their money.

Dermot Nolan: It does, and if you look at the pattern of interconnection flows over the last year or so, being candid, the biggest interconnector is to France and the next biggest is to the Netherlands. By and large, the power is flowing our way. We are getting a large amount of power consistently over the winter from both France and the Netherlands.

Q5 Chair: Going back to Grid, I do not suggest that they have acted improperly at any stage. But I have suggested several times, and others have supported this, that there is clearly a conflict of interest for a very large, regulated business which basically makes more money for its shareholders if the transmission capacity that it has to deliver increases. They therefore have a financial interest in seeing more transmission capacity, regardless of whether that is actually needed. I emphasise that I am not suggesting that they have acted improperly, but the incentives are quite clear. It would only be human to want to err even more on the side of caution.

We are in a period when the potential of demand-side responders is just beginning to be understood. In the United States, they are exploiting that to a much greater extent than we are yet. Do you feel that there is something additional we need to do to make sure that when Grid recommends more generating capacity and therefore a bigger transmission network to their own financial advantage, the potential conflict of interest has particular scrutiny?

Dermot Nolan: Two points. One is that I agree; it does need scrutiny. Grid would say, and I would accept this, that they have strong ring fences in place. I was at a House of Lords Committee last year on the topic of interconnections. If my memory is correct, there were two Grid people there, but at one point one of them left the room because the other was speaking about such issues. So I think they take that seriously.

My own personal view—this is something we are working on with DECC—is that an appealing feature of the independent system operator model is that there would not be that kind of conflict. We are doing some work to assess whether or not it would be a good idea for Britain to set up an ISO—this, again, would ultimately be a decision for policy makers—which would be separate and would not have the assets of the transmission network that currently exist.

That model, which is not a perfect model but has functioned relatively well in other areas, could be used as a way to get over this issue. It would be a more effective structural solution for killing the incentives—there would be none of the incentives you spoke of—than trying to use ring fences. That is something we are working on. We have a project with DECC at the moment and we hope to have a report and a view for any new Government on it.

Q6 Chair: Do you have specific performance indicators that you use to monitor and assess National Grid's overall performance in relation to its electricity market reform delivery role?

Dermot Nolan: We do. My apologies, Chair; I may have to come back in writing on the specifics. We have performance criteria, obviously, for price controls, and I believe we also have them for EMR. I do not recall, to be quite candid, what they are, but I can follow up in writing.

Q7 Albert Owen: The scrutiny of National Grid that you are talking about should extend to distribution companies as well, because they have a monopoly. We are finding that there is a potential conflict of interest because, as the system's operator, Grid really has a monopoly in many ways. It has its shareholders. Who is championing the consumer and communities? When National Grid comes forward with a project, it has to do a minimum amount of consultation and quite often goes with its preferred option. Communities feel detached from the whole process; it is a done deal. Who is the champion for communities and for the consumer in that case?

Dermot Nolan: Ideally, we should be. Two points—if Grid wants to build something, we have to assess it. Indeed, in the new regime that we have designed for interconnectors, which Grid is obviously availing itself of, we assess whether that is beneficial for consumers. Grid is now in conversations—I don't think this is inappropriate to say—about how and whether it should extend the transmission line to the new Hinkley Point project. They are the kinds of discussion we are in, but we are looking at it purely from the perspective of the energy consumer; will it be good or bad? What I suppose we do not get so involved in is the effect on local communities, in the sense that if the local community feels that a line should or should not be under its ground, that is really between the planning authorities and Grid.

Q8 Albert Owen: But there is the point that the Chairman was making about the 20th-century model we are adhering to. National Grid says, "We want to go with route A. It's our preferred option. We'll have this consultation." People write in and say it should go an alternative route, and then they go ahead with route A. That frustrates communities. In the 21st century, we are talking about competition and everything, but Grid makes the proposal and makes the decision, albeit with the Secretary of State at the end of the day. In between, there is no one really voicing the views of frustrated communities. Do you think that you should have an enhanced role?

Dermot Nolan: I think we should, but I am not quite sure how it would work. Let me give two initial responses. I accept the view that it is, in some senses, very 20th century; you go out with A, B or C but everyone thinks it will be A and, hey presto, it turns out to be A. There have been some modifications. For example, in northern Scotland SSE was recently approved to build a line between Caithness and Moray. During the process many local communities expressed the view that it was not good to go through areas of real scenic beauty. Consequently, and slightly more expensively—we modelled the effect—the vast majority of the line is going offshore to avoid areas of natural scenic

beauty. I see that as one positive impact, but it is not, perhaps, the most scientific method applied to all areas.

I spoke last time I was before the Committee about the idea of bringing more competition into the transmission network and said that major projects—what we call our strategic wider works project—could be tendered out to a range of purveyors. Grid could bid itself, SSE could bid, but so could others. I hope that, in doing that—and we are absolutely going to roll it out—we will be able to bring a competition element into choosing the route and responding to community preferences. However, there may always be some conflict between a community who are saying, “We would prefer that this is undergrounded” and the energy customer who is saying, “In that case, costs are going to be higher”. Deciding on that is very difficult.

In the Caithness-Moray case we tried to develop metrics. We asked people, how much does it hurt you if, indeed, something goes through your community? That was one of the reasons that we approved it going offshore. My answer has not been totally comprehensive—we will think further—but there are some signs that we are trying to make it more responsive to people’s needs.

Q9Albert Owen: Okay, but it does link with interconnectedness, because there does not seem to be a big picture: developers come with a scheme and they just look at that area, not at the wider picture—where interconnectors, subsea or otherwise, could be. The new developments are all going to be on the coast.

Dermot Nolan: That, again, is where I believe an independent system operator could work well, but I stress the word “could”. The point of an independent system operator would be to look at the entire network of transmission and distribution and have a role in ensuring that it develops in the most efficient fashion, unencumbered by the incentive, “Actually, I own this and I want to build it myself”. They would simply be trying to optimise the system. There are problems in that, too. It can be difficult to incentivise such entities, but, personally, I see a strong case for it.

Q10 Chair: Going back to the CfD auctions, how will you assess whether these first-round auctions have provided value for money for consumers?

Dermot Nolan: It is an excellent question in the sense that, formally speaking, we have no role in assessing it. I am not sure whether the NAO will look at this explicitly. What I will say—and these are personal remarks—is that the clearing price was lower than expected. I think it was £19.4 per kW/year. By and large, that was a good thing. It was sometimes seen as nervousness. I think that the fact of it coming down and reaching a lower price was only a good thing for consumers, and I view it as positive. The overall question of whether it has been good value for money can only be assessed in five or 10 years, frankly.

I know that concerns have been expressed about the mechanism paying money to existing plants that might have continued in any case. That was a decision taken three or four years ago and I see pros and cons to the decision. We have no plan to do a formal assessment of it. We could, but it is ultimately a set of decisions for the Secretary of State.

Q11 Chair: I can see that it is premature to try to reach a conclusion about value for money from the capacity market, but if we look at the auction process for the contracts for difference, the

cost of those, of course, comes out of the levy control framework total, which is a capped figure, so we could argue that from the consumer's point of view, how the money is allocated within that envelope does not affect consumer bills directly. However, there is a value for money concept, which I am very concerned about, which is that since that levy control framework money is intended to promote investment in low-carbon generators, if too much of it goes to the very expensive technologies, such as offshore wind, there is inevitably less available for those technologies where the strike price is a lot lower than offshore wind. Even though the mix within that does not affect consumer bills directly, would Ofgem take an interest at all? If we had more solar, onshore wind, and some wave technologies than offshore wind, you would get a bigger bang in terms of carbon omission reductions for the buck out of the levy control framework money.

Dermot Nolan: You would. Again, this is a matter that is in the competence of DECC and Ofgem does not have a direct role. I will however personally say that I applauded the decision to have an auction. There was a point a year or a year and a half ago when it was not self-evident that there would be any auction process at all. So I applaud the idea of having an auction and a revelation of a strike price through that process. I think that is only a good thing for consumers.

The issue then is the division between mature and emerging technologies. I can't remember if that was the phrase used, but that essentially was the issue. In my view, it would be nice just to have an auction period. I believe that that is the plan for DECC. One will not distinguish between mature and emerging technologies, at least not in a very major way, but simply say, "There is a certain amount of money. All this money provides decarbonisation benefits and may the best technology win, in some fashion". That would clearly deliver the best bang for the buck.

There are issues. The Government may always wish to support new and emerging technologies. I can entirely understand that, and it may be entirely reasonable, but I would like it personally if we were technology neutral and said, "If there is a certain amount of money to decarbonise the economy, then let the most efficient technology win".

Q12 Chair: The appeal process—there has recently been a CfD appeal—potentially causes delay and uncertainty. How is Ofgem able to ensure that the appeals process is conducted transparently and robustly?

Dermot Nolan: As you know Chair, we are the appellate body for National Grid. We have had a number of disputes this year and we have made our determinations already. I think none of those was appealed. Are you asking how would this Committee know that we have done a good job? How can the public be assured that our process was reasonable?

Q13 Chair: Well, we are still at the early stages in all this. We want to learn from what has happened this year to try to make sure that it gets even better next year. If there is a likelihood that there will be appeals against how the CfD process has worked, that produces an extra element of uncertainty from the point of view of investors, who are already coping quite well with uncertainties. I was wondering whether you feel that there are ways of making sure that, where appeals take place, they can be dealt with reasonably quickly, transparently and robustly, to boost confidence among investors.

Dermot Nolan: Absolutely, Chair. Maybe I was not clear in my previous comment. Disputes have already been referred to us. A set of generators were not allowed to qualify for the process by

Grid and disagreed with that decision and appealed to us. We have had such disputes. We have dealt with them all quite quickly and ahead of schedule. I do not recall all of them, but I can write to you. We have done so ahead of schedule. I think it is terribly important that we deliver that quickly. If we do not, as you say, the generator will be mired in uncertainty for some time.

Q14 Chair: How will you in any other way contribute to the review of EMR that DECC is going to conduct this summer?

Dermot Nolan: I would like us to be very centrally involved, subject to the fact that the competence lies with DECC. The EMR is now in place. A set of auction processes has been set up. I think it is very important to think of what happens next and where the market will evolve. It is also important to study the responsiveness. In the impact assessments that were done it was noted that in the capacity auction method, as the capacity auction took place, the impression would be that wholesale price movement should alter, in the sense that the overall impact should be relatively limited. We want to look at evaluating that.

Over the next six to nine months, we want to think about whether or not this is the best way of achieving the Government's security standard. That is a matter for the Government, but I am anxious, subject to the Government wishing to have such advice, for Ofgem to play a role in thinking about how the wholesale market develops from here, how it interacts with the capacity market, and whether the two need to be integrated further in some fashion. The competence for that task is with the Secretary of State. I really want the regulator to be involved in it and to be able to advise the Government on the best way forward.

Sir Robert Smith: I had better remind the Committee of my entries in the Register of Members' Financial Interests, particularly those to do with oil and gas, and the shareholding in Shell.

Chair: Can I do the same thing? I am sorry; I should have drawn attention to my entries in the register.

Q15 Sir Robert Smith: Part of the UK has an independent system operator arrangement already; can we learn any lessons from operating two methods?

Dermot Nolan: I spoke earlier about the fact that it is, essentially, a ring fence. Are lessons learnt?

Q16 Sir Robert Smith: I am just thinking that in Scotland the ownerships are not just ring-fenced but separate.

Dermot Nolan: Yes, but Grid is the operator for the entire island. We have no evidence that Grid or any of the transmission companies are engaging in inappropriate behaviour, but I think, from what the Chair said—I certainly hear things from various people in the market—that the appearance of something can be almost as bad as the actuality. An independent system operator would—there may be other pros and cons—remove any appearance of favouritism at a time when where we are likely to build interconnectors for some years to come.

Q17 Sir Robert Smith: On the interconnector, the net flows very much from the Netherlands and France into the UK. Does that mean that consumers in the Netherlands and France have a lower wholesale supply market?

Dermot Nolan: It means that the price of base load electricity in France is lower than it is here, mainly because France is 80% nuclear. The price of base load electricity in the Netherlands is also, on average, slightly lower than here. Interconnector capacity—the lower-cost region flows to the higher-cost region and equalises prices—is a very positive thing. There are 3 GW to the continent; we have gained considerably from that over the past two years in terms of its effect of driving down wholesale prices and providing capacity.

If you are getting at the idea of tight margins in other countries and whether that is a problem in terms of the security of supply that they bring, that is one of the reasons why interconnectors are not quite perfect. A gigawatt interconnector is not quite as reliable as an interconnector of a gas plant because there is at least the possibility that France or the Netherlands might be short as well. That is why it is not quite so good, but on average—security of supply is about averages to a large extent—it still brings considerable security of supply.

Q18 Sir Robert Smith: You mentioned in November that the network companies were achieving higher returns than expected under the RIIO arrangements. A substantial element of that would go back to the consumers. How does the sharing mechanism work for the consumer?

Dermot Nolan: The sharing mechanism works in the sense that the companies are required through the price control to achieve certain levels of consumer outputs. They forecast in advance how much they spend, and obviously the price control goes through that with enormous intensity—we spend a lot of time on that. Given that and the fact that we can never entirely perfectly capture what is going on in a company, because they are essentially better informed than we are, we have set up the sharing mechanism whereby if they deliver these outputs for slightly less than was anticipated—for example, if in a given year they achieved a certain level of outputs, which we measure carefully, and spend maybe £1 million less than was anticipated—they get to keep a part of this, but the remainder goes back to the customer. That proportion is between 40 to 60%—it varies slightly, according to whether they are gas transmission, electricity distribution or gas distribution. It is slightly unfortunate that there is such variation, but broadly speaking about half goes to the consumer and about half goes back to the firm. This is essentially designed to give it strong incentives to really deliver appropriately. They are allowed to keep a portion of those incentives, but not all of them.

Q19 Sir Robert Smith: Do you have any idea of how much difference that would make to a consumer's bill a year?

Dermot Nolan: A difference if it was 100% or zero?

Sir Robert Smith: Yes.

Dermot Nolan: Not off the top of my head, but I can write to you.

Q20 Sir Robert Smith: Perhaps you could write to us. Could you have predicted these higher returns in your modelling?

Dermot Nolan: When I spoke of higher returns—I do think they were higher than anticipated—I was referring mainly to the last few years of the previous price control. We could have been better at predicting. The rate of return—what we call the average cost of capital—turned out to be higher than was expected when we set it at the start of the last price control framework. In that sense, we were no different from any other regulator in energy or in any other area that got interest rates wrong for a two or three-year period. We expected interest rates to rise, but they did not; they stayed at an incredibly low level for quite a long time, thus for the last two or three years of the previous price control, ex-post returns were higher than expected.

However, I do believe that we as a regulator learned from that process. In terms of the price controls that we have now just finished, which we have gone through over the last 18 months, we have set an interest rate, or average cost of capital, that is actually tied to market interest rates and is set in a predictable fashion. So that particular problem that happened in the past should not happen again. So I believe we learned and responded in that regard.

Q21 Sir Robert Smith: With your supply market indicator, obviously you are suggesting that profits are rising in the supply side because wholesale prices are falling. Shouldn't that be fed through to the consumer?

Dermot Nolan: Indeed, wholesale prices have fallen dramatically over the last three or four weeks, as people will be aware. Our supply market indicator is due to be published this Thursday.

Q22 Sir Robert Smith: Do you have an advance copy?

Dermot Nolan: I apologise to the Committee, but we did say to investors—to the entire community—that we would always try and publish on the last Thursday of each month. I would be reluctant to move away from that now. To remind people what it does, it tends to look at an average supplier—one of the larger ones. You look at the average revenues in the market and the average costs, and you look forward: this is the margin and the profit that you would expect to earn over the next year. It has been attacked by various suppliers in the past. People will never be happy about it, with any one measure, because you can always have another measure. I am confident, however, that it is a reasonably good forward-looking measure. I want it to be an authoritative measure.

I am sorry, I do not feel I should give a figure, partially because it is still undergoing QA and because we are trying to take into account the effect of the price cuts over the last two weeks—we want it to be as current as possible—but I believe it will show an increasing margin, and that is clearly cause for concern.

Q23 Sir Robert Smith: Apart from the competition in the market review, is there anything in the short term?

Dermot Nolan: Given the framework we are in, what we are trying to do now is focus on switching. I know that is not a new message, but we have put RMR reforms in place and we are

trying to run a number of things. We are running a “Be an energy shopper” campaign—we have a website and radio adverts where we tell people that it is genuinely a good time to switch.

We also released a note, which the Committee may not have seen, last Friday, which looked at the idea of variable and fixed rates. Although it did not specifically tell people they should switch to a fixed rate, it showed that in many cases the better deals in the market currently are now in fixed rates. As we pointed out, you could save up to £250 a year if you made a switch, and because of the protections put in place, you could make that switch to a fixed rate deal for a year, secure in the knowledge that you would not be messed around at the end of it, which has always been a concern of customers in the past. So we have tried where possible, and will continue to try, to get the message out that it is easy to switch and that you can gain from switching. That is the framework we are in.

The major question of whether and how the wholesale cuts that clearly have occurred are being passed on is something we will continue to monitor and measure. One thing that I want to do very clearly as a regulator is shine as much light into this area as possible and publish as much data as possible—really put firms under the microscope in terms of saying, “What have you done? What are the correct margins that are in place?” That is a very important thing for a regulator.

Finally I will comment on this—I realise that I have gone on for some time, but I think it is an important issue. The whole problem of what I think has been called, perhaps by us, “rockets and feathers”—I do not know whether the Committee is familiar with that term; my apologies—is one of the fundamental reasons we referred the market to the CMA. In the state of the market report we published last year, we said we believed that we found strong, statistical, econometric evidence that said wholesale prices rise and retail prices go up more quickly, but actually they don’t fall in the same way. We felt that was not just an opinion or point of view; we had strong, statistical evidence. That was one of the key reasons we sent it. If this phenomenon is still going on—and Thursday may make it slightly clearer as to whether we believe that in fact that lack of responsiveness is still there—I would see that as just an ongoing problem and something that the CMA really will be looking at very carefully. What they will do with that, I do not know, but they are due to publish their interim conclusions in June, I believe.

Q24 Graham Stringer: On the CMA, you have had your hearing. Can you give us an overview of that hearing?

Dermot Nolan: They published a summary of our hearing on their website, which I shall try and summarise myself now, though I can also have it sent to the Committee. We met the entire panel; there were five people on the panel and they asked a variety of questions. They started off by asking about the wholesale market—did we think the wholesale market was broadly fit for purpose? What did we think was the effect of the EMR? By and large, we took the view that we thought it was very important they study that, but we didn’t think that market power in the wholesale market was really the biggest issue.

We then moved on to some of the areas I have discussed. We talked about the rocket and feathers issue, saying we thought the persistence of this was probably the biggest single problem we had found in the market and that trying to find a remedy for it, in our view, was going to be a key issue.

We then talked about what I suppose we called the incumbency effect, which again has been an issue since privatisation. In the gas market you have Centrica, which obviously was the former national gas incumbent. In the electricity market you have a bunch of regional incumbents. In many cases, some of their customers have still never switched, and they know this. These are, if you like, the inactive customers and they are charging slightly higher prices to them, and competing more actively for active customers against the new suppliers. We said that this was a persistent problem in the sense that this was often an outcome of some competition, but the smaller suppliers in particular were aggrieved about it. I have met many smaller suppliers myself over the last few months who have said that this is the biggest challenge for them: they enter the market and feel that they are competing reasonably strongly with each other and with the big six, but they feel that the big six—in some ways I despise that term; shall we say, the larger firms—still have this incumbent base that they can get more money out of. I said that this was a persistent issue that we had seen. We had taken one or two remedies to try to resolve it in the past and they hadn't been wholly successful. We thought that this was probably the second issue we would really like the CMA to try to resolve. They were the things that we talked about most.

We talked about whether there were too many barriers to entry for smaller suppliers. We talked about the code system that governs a very complex energy market—was there some way we could simplify it and make it easier for new entrants. Was there some way that we could reduce the burden on new market suppliers and encourage innovation? We talked a little bit about the retail market reforms we have put in place and the very detailed rule book. We said that we wanted to move to more principles-based regulation—which we do, I believe—and have a general duty of fairness on firms. Instead of a very detailed rule book, which I think has been built up and is necessary for now, we wanted to have a general duty to enforce, on the grounds that firms were not treating customers fairly. We thought that would be a more positive step for smaller firms.

We talked for some time—I think the hearing was nearly four hours. I have tried to give you my sense of what we discussed, but I cannot give you a sense of what the CMA will do. I really don't know; that is for them to decide.

Q25 Graham Stringer: That is fine. Two questions follow from that. Did you talk about the lack of transparency of internal pricing within multinational energy companies, and about the problems that causes?

Dermot Nolan: We touched on that to some extent, but not greatly. We said that we had tried to deal with some of the transparency problems by two main methods. One method was the forward-looking supply market indicator that we were publishing, and the other was by segmented accounts. We said that we were looking ex-post at the profits and loss and had over time developed a methodology for assessing these, but that, to some extent because of the multinational issues, it had proven difficult, so we would look for their advice on that. I believe it has been put to the CMA—I am not precisely sure by whom—that bringing this transparency into the market could facilitate co-ordinated behaviour. I do not personally find that argument compelling, but I know it has been put to them. So we had some discussion, but it was not very long. We certainly brought it to their attention.

Q26 Graham Stringer: That is an interesting argument. It would seem to run counter to all competition theory.

Dermot Nolan: I must say I do not give it a great deal of credence.

Q27 Graham Stringer: There has been criticism that people who work for you are too closely associated with the Competition and Markets Authority inquiry. You have seconded people in, haven't you? What is your response to that criticism?

Dermot Nolan: We seconded one person. I am fairly sure I am correct in this—obviously I will come back if I am not—but I think we seconded one person in for a six-month. I do not believe that they are currently seconded. We seconded them in because the CMA asked for some advice in getting to grips with a quite complex market, particularly the wholesale market. That person is no longer there. We have a team that meets with them, but I believe they treat us like any other interested party. I am due to meet them again in March, I believe. The panel will conduct a number of meetings in March, including with us.

I have also said publicly and say again today that I am very open to the Competition and Markets Authority assessing regulatory behaviour and performance over the past five years. We have nothing to hide, but even if we felt we had not performed well—I am not saying that at all—it is very important that the CMA look at regulatory performance. If they feel we have made a mistake or could have done things better, I want them to tell us, I really do. In that sense, I really do not feel we have anything to hide.

Q28 Graham Stringer: What is the nature of that ongoing dialogue? Is it swapping or giving them factual information, or is it more discursive?

Dermot Nolan: In a way it is both. It is giving them factual information in the sense that we have sent them a number of papers on specific areas, most of which is factual information, some of which is discursive and perhaps analytical as well. We have sent nearly all of those in, but I believe that nearly all of them have been published on the CMA's website, so it is a transparent process. I see our role as giving them information, advising them on the technicalities of the market—if they wish it—but then allowing them to make up their own minds. Whatever they come up with will be an independent view.

Q29 Graham Stringer: While this process is going on, how are you trying to improve competition in the marketplace? Have your efforts been put on hold because you are waiting for the CMA to report, or are you doing things? If you are, can you tell us what those things are?

Dermot Nolan: We are doing things, but we are possibly making fewer major changes than might otherwise have been the case. When we sent the market, we had just completed our retail market reforms, which were quite far ranging. We still felt that it was right to send the market anyway, given the persistence of the competition problems. We have been doing some things over that period of time. In particular, we have been looking at issues in the small business market, which is part of this, and whether or not to prohibit auto-rollovers, which is an ongoing piece of work. We are also looking at the role of what we call intermediaries or third person intermediaries in the small business market. There has been a call from many businesses for us to bring more transparency into the small business market, in the way that has been done in the residential market. We are considering that, and are due to come out with something on it in the near future.

We will have a decision coming out shortly on what we call white label producers. At the moment, certain suppliers have relationships with white label producers. I am not criticising this in particular, but the most well-known one is Centrica and Sainsbury's. We are trying to bring forward rules to clarify market rules in that regard and give other suppliers an opportunity. We have also recently come out with something on confidence codes and switching sites. So, we have done some work, all of which is mediated in the role, in our view, of trying to improve competition. As for potentially more radical changes, we are waiting to see what the CMA comes out with.

Q30 Graham Stringer: Fair enough. On the referral to the CMA, do you take that as a major failure of you as the regulator? Is it a recognition of failure? Secondly, have any of your interventions actually reduced the competition within the marketplace? People have made that criticism.

Dermot Nolan: People have made that criticism. I don't regard it as a failure. I suppose the response might be, "He would say that, wouldn't he?" I came relatively new myself and my first answer was to refer, but I do not think in any case it was a failure. Frankly, it is what is supposed to happen. It is what Parliament has suggested should happen if there are serious problems in a market. We have set up a framework where there are regulators—obviously there is a number of sectoral regulators—and Parliament has explicitly stated that if there are pervasive competition problems in a market, including ones that might be just dealt with by remedies outside the direct power of that particular regulator, then it sends it to the CMA. Many sectoral regulators have sent parts of markets to them before. The CMA is currently looking at, for instance, the banking market. I think the FCA are at a Select Committee this morning—I don't know if they are facing that question, too. So I do not see it as a failure. I see it as an indication that there are systemic problems that an independent authority can look at.

You asked whether we had harmed things in the past. I believe we have not, but I would also say that clearly any intervention we make we try to do so in the best interests of consumers. One particular intervention, which in the energy trade has been called section 25A, if that does not sound too enigmatic—

Graham Stringer: It sounds completely opaque.

Dermot Nolan: It probably does—my apologies for that. It was an intervention made to try to resolve the incumbency issue that I spoke about earlier. Basically, firms were told that they could not charge different prices in different parts to different customers. That was heavily criticised by academia, in the sense they argued that prices might rise. It was taken by the regulator in what we saw as the best interests of all customers, but was heavily criticised by some academics and some firms as driving up average prices. The CMA is looking at that issue and trying to give a verdict. In that sense, as I said earlier, I am open to what they say. If we have made mistakes in the past, we want to learn from them.

I spoke earlier about strategies and our new work plan. What I want to do better in future—this not a criticism of the past—is to attempt to measure our interventions. If we make an intervention into the market in future, hopefully with the aim of improving competition and consumer welfare, we would explicitly come back to it, develop tools for measuring it to see whether it has succeeded in its aims. For instance, we are doing a report on the RMR reforms we have put in place, and we will publish that in the middle of this year, to see if they are working. If they are not, we have to see what we can do about it. Clearly, a regulator should be measuring its impact. If it is not doing that, it really is failing.

Q31 Dr Whitehead: Can we turn to the retail market review and tariff simplification? We have touched on that a little so far. To what extent do you think the reduction in the number of tariffs available has actually improved and clarified competition in the energy market?

Dermot Nolan: I have to say I do not know yet. I am not trying to duck the question, but the issue I have referred to—the idea of trying to measure the actual impact—is something we are engaged in at the moment. We have not run numbers yet, but I would be delighted to come back to this Committee or its successor in the future. I will try to give some views, though.

I think the four-tariff rule is not the right rule for the long run, and I think I have said that in public. We brought it down to four tariffs because we felt, and all the evidence suggested—not only our own evidence but some evidence gathered by some academic universities and think-tanks—suggested that people were genuinely confused and occasionally just found it very difficult to make a choice. We have talked about this to the Financial Conduct Authority, which has done similar research. The four-tariffs rule was to some extent to reset the market, to try to give confidence for a period of two or three years that people could make choices more easily. It is probably not suitable to have just four tariffs in a world with smart metering—indeed, we have already allowed for other tariffs for smart meter products. But as we get more complex—complex is perhaps not the right word; as we get more entries and new business models into the market, I anticipate relaxing the four-tariff rule.

Two comments about that. I would ultimately prefer, as I think I said earlier, to regulate and, if necessary, enforce against suppliers by using the general standard of whether or not they were treating their customers fairly rather than very specific rules. That is the journey that I would like us to go on over the next two or three years.

My other comment on the four tariffs was: I think I said to this Committee before that if there were tariffs that firms wanted to introduce that would alleviate fuel poverty and that were particularly focused on vulnerable customers and the fuel-poor, I would give derogations to those. There was not a flood of such applications, but I am glad to say that we approved a derogation for Centrica last week. They have a specific tariff that they managed to convince us really was designed for the fuel-poor—those who had very little usage. We have approved that and we stand ready to approve further tariffs if indeed they are genuinely focused on the vulnerable.

Q32 Dr Whitehead: You mentioned the process derogation for specific purposes and you implied that, on the four-tariff rule, you will look favourably on new products that might breach the rule but that you consider appropriate. Will that be in terms of generic expansion of tariffs or specific derogations by application? If the latter, do you not stand in danger of replicating the rather complex and non-comparable arrangements we had before?

Dermot Nolan: There is that risk, and it is the latter in the sense that what I envisage is derogations currently for specific tariffs designed to aid predominantly the vulnerable and fuel-poor. I am not setting the number down, but there will probably be a limit to those for any particular firm and we would have to have evidence that they are specifically focused on the fuel-poor.

For the moment and at least the next period of time, the basic rule of four tariffs and not getting around that is an important principle. I referred earlier to work we have been doing on white labels and while I cannot tell you what the decision will be on that, there will be a decision in the

next year. One of the difficulties that we have been trying to grapple with is whether white label should constitute an entirely separate set of four tariffs or not. We have come to a view on that. I cannot tell you at the moment what it is, but for the moment at least we do want there to be the basic principle of just four tariffs. You cannot, with the click of your fingers, suddenly have eight or 12 tariffs and hoodwink the public in that way. I do not think it is the long-run situation, but the lack of trust in the market and the complexity in the market now is such that I think we will have it. The derogations I referred to earlier are specifically for the fuel-poor.

Q33 Dr Whitehead: The white label debate is an interesting one that highlights the dilemma over whether one really says, “Right, that’s one of your four tariffs, and if Sainsbury’s, Lidl and whoever else enter the market, you have used up your tariffs,” or, in terms of giving some further manoeuvrability to different kinds of products, that rule inevitably starts to be eroded. Without your actually saying what the position is, it would be helpful if you gave us a guide view about what constraints you think there are on the four-tariff rule.

Dermot Nolan: On the white label issue, there will be a decision, but I really do not want to go into the specifics of what that might be. It is being considered by the board and something will be published in February. Broadly, we do see a role for white labels; the idea of totally prohibiting them is probably not on. However, it is not only about the number of tariffs; it is important that the rules about the requirement to inform customers of the various other options would govern such white labels. That is probably all I would say on that specific point.

Q34 Dr Whitehead: There is potentially an issue with how you look at the effectiveness of the RMR if the ground is shifting under your feet as you do it. A little while ago, in response to our report “Energy Prices, Profits and Poverty”, you said that you would be developing an approach to reviewing the effectiveness of the RMR. How is that possible if the grounds are shifting? What would your general approach to looking at effectiveness be?

Dermot Nolan: Our general approach would be to look at a number of indicators, one of which is obviously switching, but the percentage of reliable switches. There is a variety of indicators—I am afraid I cannot specify them now, but I can come back to you in writing—which we will use in our report, including qualitative evidence from customers about whether or not they have found it more comforting and easier to have four tariffs rather than the complexity that there was before.

I take your point about the ground shifting under our feet, but I would say that it has not shifted yet, and it may not shift at all—I really don’t know what the CMA will come out with. It did not seem appropriate to us to say that we would not try to evaluate the RMR for a year, and instead just wait to see what the CMA was doing. In fact, I think that the CMA has expressed interest in seeing the results and, as far as practicable, seeing a preview of those results before we publish them.

We referred to the CMA for what we thought were very strong reasons. We could not just shut up shop, in a sense—I did not think that that would be appropriate. There were certain interventions that we felt we needed to make—including on white labels, confidence codes and switching sites—and we felt it was important to keep making them. In particular, we at least want to

develop our analytic powers and try to measure people's effect so that, if nothing else, we can feed them into the CMA.

If the RMR is changed radically by the CMA, so be it, but in the meantime we will try to assess it as well as we can. I can come back to you in writing on some of the methodologies we are using.

Q35 Dr Whitehead: You mentioned the question of new tariffs as smart meters are rolled out. To some extent, there is a problem of anticipation versus practice, where, as the idea of the roll-out gathers steam, there will be a question over whether there will be anticipatory tariffs that reflect the particular technology of smart meters—time of use and so on. Is that alone going to crash into the question of holding the line on a smaller number of tariffs? In itself, will that produce a substantially denser forest of tariff arrangements, either actual or anticipated, over a period of time? What is your general approach to tariffs and smart meters?

Dermot Nolan: Our general approach has been that we have said explicitly that any supplier that rolls out smart meters is able to offer four smart meter tariffs in addition to the existing four. We have said that quite explicitly. Our general approach would be to enforce the compliance of the set of the smart meter tariffs with all the other aspects of RMR vis-à-vis transparency and informing the cheapest deals, but by and large you could still have four tariffs for people with smart meters. That was necessary, as there will be a period of time where there will be suppliers with smart meters and non-smart meters. It is not unreasonable to have given them that. Beyond that, I said earlier that I did not think that the four-tariff rule is the long-run solution. By the end of the decade, we will have reviewed it carefully and the CMA will have reported. At that point, we will have a sense of whether the consumer disengagement and fear of complexity has sufficiently abated so that we might relax the four-tariff rule, but I do not see that happening until later in the decade.

Q36 Dr Whitehead: Towards the end of the decade, next-day switching will probably be in place. At present, that is moving to three-day switching. How are you monitoring whether that is happening? If there is the aim of one-day switching by 2018, what is the consequence if suppliers do not get near that?

Dermot Nolan: We are monitoring the current situation. Staff are due to report to me and I will forward that on to the Committee. I certainly have no evidence that any supplier has not adhered to this but we are monitoring it in any case. We believe that the one-day switching idea is strong and the right thing. We have done a fair amount of impact analysis on it. It is 2018 but it could slip to 2019, in the sense that it is probably best dovetailed with the smart metering project, which has had—I say this without any criticism—a slight delay in coming off the ground. We want the IT to dovetail with the specification of the SMIPs but it will be done in this decade. That is important.

One thing that is of interest in the project, and slightly concerns me, is that we are going to do most of the work ourselves. We thought fairly intensely—sometimes this is done in banking—about just making it a licence requirement, which we have the right to do. We could say to the industry, “We are placing a licence requirement on you to have one-day switching in place by time x and if you don’t, we will enforce against you.” Although that was tempting and would involve less direct regulation, we are sufficiently concerned about the systems and lack of trust in the market that we felt that we had to lead it ourselves. We will place a significant fraction of resources in ensuring that that delivers, and it will be a hugely important project for us over the next four or five

years. In the medium run, as a regulator, we would be best by just placing licence conditions, but we are not in that place yet and it is important that we deliver it with the aid of the industry.

Q37 Sir Robert Smith: Two quick things on the consequences of the simplification: first, what was the thinking behind the loss of prompt payment discounts?

Dermot Nolan: I cannot give you a direct answer on that. Are you saying that the prompt payment discounts have been abolished by Ofgem?

Q38 Sir Robert Smith: That is the implication.

Dermot Nolan: I will immediately come back to you if I am wrong. A number of suppliers withdrew tariffs or deals from the market, and said that was because of the rule of four—that they could only offer four. Our response is that any supplier has the right to offer whatever tariff it likes, subject to the four, and Ofgem was not directly forcing anyone to withdraw a tariff. However, that gets back to the core of the perceived problem with four: there might be six, seven or eight classes of customers, and a supplier might genuinely say, “Well, if we want to offer these other four kinds of tariff, the prompt payment discount will be the fifth.” There is no perfect answer to that. We picked four because we thought that it was a reasonable thing to do given the circumstances and consumer reaction. Suppliers were always likely to withdraw some tariffs and blame the regulator for it. They have the freedom to pick which four they like but they cannot go outside the four. These are some of the pros and cons of picking four.

Q39 Sir Robert Smith: Is that the same with standing charges?

Dermot Nolan: Yes, it is in the sense that a number of suppliers have withdrawn such tariffs and said, “The regulator has made us do it.” The regulator has not made them do it. The regulator has said, however—

Q40 Sir Robert Smith: You have got to prioritise tariffs.

Dermot Nolan: Yes, you have to prioritise. As I said before, if there was a standing charge tariff, we were particularly sensitive to that because we did not want it affecting the fuel poor. We have given a derogation to Centrica in that regard and said, “You can have an extra tariff if it is really focused on the vulnerable.”

Q41 Sir Robert Smith: So would that extra tariff no longer have a standing charge?

Dermot Nolan: I cannot remember the specifics of what we approved, but it was for very, very low usage customers, I believe.

Q42 Sir Robert Smith: There was a serious problem with gas prepayment meters. Over the summer, no one used gas and, when the winter came, they had built up a debt because the standing charge was something they were not used to.

Dermot Nolan: I was speaking about derogations with Mr Whitehead. We are going to grant some derogations, but they have to be focused on those kind of specific issues. We are open for business in that regard—we genuinely are. Centrica has come to us and we have approved one. If other companies have similar ideas, we will approve them.

Q43 Albert Owen: Just briefly on the switching issue before we move on: you indicated that you have put a lot of work into collating the evidence, but the ombudsman has had an increase in the number of complaints regarding switching. It is a little confusing. If I have a constituent who comes in with problems with switching, who do I go to? Do I go to the ombudsman? Both you and the ombudsman are collating information; I hope there is cross-referencing.

Dermot Nolan: There is considerable cross-referencing. We are dialoguing with the ombudsman quite a bit. I have not met the ombudsman myself yet, but I plan to do so in the next month or two. My senior staff regularly meet them.

Q44 Albert Owen: Sure, but the biggest increase in complaints is switching and billing itself. It is still a thorny issue. I think there is more confidence for people to do it, which is why there is an increase. I suggest that if you are doing all that work and putting in all those resources, you need to have direct dialogue.

Dermot Nolan: Absolutely.

Q45 Ian Lavery: Next week the Committee will be scrutinising the price comparison websites. A number of concerns have been expressed with regard to these websites potentially misleading customers—potentially deliberately deceiving customers—and hiding deals which do not attract any commission whatsoever for the website. There has been a change in the confidence code. Do you think that the changes in the confidence code went far enough and can prevent this sort of thing happening?

Dermot Nolan: I believe they can. There were a lot of different views in terms of making this decision. One of the key points you are referring to is the idea of what we call “all of market view”. Certain websites were maybe only showing certain deals with suppliers with whom they had financial relationships. We have put in place a modification which I think will give consumers confidence to use the websites. They will get the “all of market view” unless they choose not to.

We could have done a variety of things. We could have made no changes at all. I was getting a number of letters from academics and other entities saying, “Even making these changes, you are killing innovation. You will have very few accredited websites. People won’t use them very much and you won’t see innovative new tariffs being presented.” So there were arguments on that side. There were also arguments that said, “You should absolutely go ‘all of market view’ regardless. Don’t give the consumer the choice.” We felt the compromise we reached was reasonable because the consumer will have to opt out of “all of market view”. If the consumer does not want to see a massively long and complex set of tariffs, they can choose not to do so. I believe it is a good compromise.

To be honest, and speaking purely personally, we looked at a lot of analysis on this. I tested a lot of these sites myself. When I went through them, I remember seeing two or three sites—I will

not mention who—and saying, “This isn’t fair.” It just did not seem that they were treating the customer fairly. That is why we made the change. I spoke about principles earlier, and the general principle I would like to take for anyone we license—I should stress that we do not set licences for these people; we are simply accrediting them—is whether or not they are treating customers fairly. I thought the previous framework was broadly not quite fair, but I think that this is fair.

Q46 Ian Lavery: Under the new code, will you insist on the websites including commission?

Dermot Nolan: We will insist that they must tell consumers that they are including commission. We have thought about it, but we have not insisted that they actually specify the commission rates. Some will choose to do so; some already do so. We have not made that a condition because we do not think that actually revealing specific commission rates is necessary for a customer to have confidence in a set of offers they are getting, as long as they know commission rates are being paid.

Q47 Ian Lavery: Why do you not think it necessary to share the amount of commission? What are the advantages and disadvantages of the websites showing exactly what they will make from the product?

Dermot Nolan: I see some advantages to it. From our research, in terms of the customer experience, what we believe they want to know is, “Am I getting a clear sense of the set of offers that are out there?” We also have evidence that if they get literally hundreds of offers, it confuses them. That is why we give them the option to say, “Okay. I could look at hundreds of offers but I might choose not to. I might choose just to look at a smaller number of offers and opt out.”

All our research indicated that that was the key aspect for a customer to have confidence in it; they liked to know that commission was being charged. In our view, they did not seem that interested in the specifics of exactly how much was charged, as long as they were told that. I realise that others will disagree, and we will perhaps have to see how the situation evolves. But in our view, that particular point of showing different commission rates was not integral to the customer experience and ensuring their confidence in it.

Q48 Ian Lavery: That is interesting but I think I disagree. Do you think that the new, amended code of practice is in any way, shape or form tough enough?

Dermot Nolan: I suppose I believe it is. Clearly, if we did not think it was tough enough, we would not have made the decision. I believe it is. I know that there are various views. As I said, many have criticised us for going too far. We needed to make a change because the old framework was not really fair to customers. I will point out as well that our guidelines are tougher than, say, the CMA has recommended for price comparison websites—significantly tougher. They are also tougher than those that Ofcom, the communications regulator, places on its price comparison websites.

We have already gone further and are being tougher than any of our brother and sister regulators. We have gone further because we think that the issues in energy are sufficiently problematic that there is a lack of trust. It is an essential service and thus it is very important that we have a tough system. It is the toughest system out there. It is certainly the system we want to try and see how consumers respond.

Q49 Ian Lavery: So you think that it is tough?

Dermot Nolan: It is tougher than the communications regulator. It is tougher than the guidance given from the Competition and Markets Authority.

Q50 Ian Lavery: But do you think it is tough?

Dermot Nolan: I think it is tough enough.

Q51 Ian Lavery: So you don't think it is tough. You just think that it is tougher than other things.

Dermot Nolan: It is tough enough to give consumers confidence that they can use these sites fairly.

Q52 Ian Lavery: What happens if an accredited site breaches the code?

Dermot Nolan: We withdraw accreditation.

Q53 Ian Lavery: Does that mean that they can then just act in the same fashion but without the accreditation?

Dermot Nolan: Yes. These sites are not licensees. We have no statutory powers over them. We simply accredit them on the grounds that we hope there is some value to our accreditation and that consumers will trust it. Thus, as they are not licensees, we will immediately withdraw accreditation if we feel that they are breaching our code, but they will still be able to continue as a site.

Q54 Ian Lavery: Ofgem's original consultation suggested that it might have looked at extending the pool covered by the code to include the likes of GoCompare, Confused.com and Comparethemarket.com. Do you intend to do that?

Dermot Nolan: I am sorry, Mr Lavery, I am not precisely sure what you are referring to there.

Q55 Ian Lavery: The original consultation looked at widening the pool of price comparison websites that would be covered by the confidence code. Are you looking to extend it to the likes of GoCompare, confused.com and comparethemarket.com?

Dermot Nolan: Anybody who seeks our accreditation must comply with the code. There are an awful lot of price comparison websites out there and they do a lot of things apart from energy.

Our rule in that sense is that we do not have any formal licensing role, but anybody who wants our accreditation must comply with our code. That is the way that we put it.

We are also looking, as I referred to earlier, at what we can do in the small business market—I know it is a separate issue, but it has relevance—where many people who buy electricity and gas function not through the price comparison websites but through what we call third-party intermediaries. There has been a sense—this has been offered to us as a suggestion—that many of them do not offer sufficient transparency for what are sometimes quite small business owners who perhaps are not terribly well informed in terms of how they buy their energy. So we are looking to extend the code of practice to them as well. We have a consultation out on that and we will have a decision in the next six weeks.

Q56 Graham Stringer: Are you saying that, in effect, they are in hock with some of the energy companies?

Dermot Nolan: No, I am certainly not saying that, but what has been alleged to us and what we have consulted on is the view that the market is not transparent. A lot of the smaller buyers of energy—people who run local shops or some small business—are just a bit ill-informed and do not have great confidence in the TPIs that they address, so they would like some framework for knowing that a TPI was trustworthy.

Q57 Sir Robert Smith: What size of small business would be treated more like a domestic consumer?

Dermot Nolan: That is where we have agonised a bit. I will have to come back to you with the exact number, but it goes to many thousand kilowatts—probably 10 to 12 times the size of the consumption of an average house. We have thought a lot about that. It is a fairly wide definition and we have given a degree of protections to such small businesses as well.

One thing we are trying to clarify is whether or not that definition itself is too wide. Whenever I meet some of the suppliers in the small business market, they say, “Well, the market works relatively well. That is because we don’t have all the burdensome regulations you have imposed in the residential market.” Perhaps they would say that, wouldn’t they? When we meet a lot of the small businesses, they tend to say, “We’d like some of the protections you give to the residential market brought to the small business market.”

Q58 Sir Robert Smith: Yes, because they are not professional energy buyers.

Dermot Nolan: No, they are not. So we want to bring some protections. We have already brought some and we want to clarify precisely where that line is. A very large steel company can probably buy its electricity without specific interventions by Ofgem, but it is where we cut the pie that is a crucial issue going forward.

Q59 Chair: To be clear on the position about not showing all the available tariffs, you are content for a comparison website to show only tariffs on which it will get a commission.

Dermot Nolan: I think our rules said that we are content that you show all tariffs unless the customer chooses not to see all tariffs.

Q60 Chair: So if the customer presses a button saying, “I want to see a smaller number of tariffs,” however defined and for whatever reason, and they happened to be only the tariffs on which the website got a commission, should that be made clear to the customer?

Dermot Nolan: I believe it should be. I will have to come back to you on that, because we have a role. We have specifically said we would approve the language used. I went back and tested these sites myself and I do agree that the language was confusing. We have said that in order for this to be certified by us, we have to check the language to make sure that it is not deceptive and customers are not being deceived when or if they choose not to see all tariffs. There will be some burdens involved for us. I will come back to you on the kind of language we will use in that regard.

Q61 Chair: I cannot speak for the Committee as we have not discussed this in detail, but I would be concerned if the only offers were those on which commission was paid to the website, but that circumstance was not made apparent to the customer.

Dermot Nolan: Okay. I will note that. We have already made a contribution to the hearing and we can make a further written one as necessary.

Chair: Essentially, transparency is our concern here. We have no great difficulty with people earning a commission. That happens in all sorts of businesses, but where some offers generate a commission for the person making the offer and some do not, that is something that customers should be aware of.

Q62 Graham Stringer: Without getting into an ideological battle about this, why is a market solution the right solution? Why can't somebody in the public sector give the information out?

Dermot Nolan: That would be the idea of the regulator or some other entity setting up its own website?

Q63 Graham Stringer: Yes. It could be you or it could be somebody else. Why is that not a better solution?

Dermot Nolan: It could be a solution. We have not chosen to go down that route. It would involve considerable resource and time but I accept that, in the greater scale of things, it could still be done. You said that it wasn't an ideological debate and I do not want to make it one either, but the CMA guidance has suggested that the best way for price comparison websites to flourish and be trusted is by themselves competing, innovating and offering new ways to show customers tariffs. Some of the criticisms we got were, “You are killing innovation in your desire to insist on these protections,” which I believe are necessary, or, “You will discourage new entry, you won't have new websites entering the market.” If we did one, we would probably be imperfect because that is not our core skill. We could build a website and try and update it every day but because we are a regulator, we would be less likely to have more innovative ways of presenting tariffs. Would we be trusted? We might well be. I would like to see whether this current framework works first and

whether in six months or a year we feel that these are being trusted. If they are not, then I would be much more open to building our own website at that point. If it were to be built by a state entity, I think it would need to be by either us or the ombudsman.

Q64 Christopher Pincher: On the matter of licence breaches and fines, Ofgem's 2013-14 annual report says that companies had £35.5 million of compensation and penalty fines levied on them. Npower was forced to pay consumers £3.5 million. Scottish Power was forced to return £8.5 million after an investigation into mis-selling. On the Ofgem website subsequent to the annual report, British Gas has been fined £1 million for mis-selling and E.ON has been fined £1 million for mis-selling to vulnerable customers. In the light of that, do you feel that we are over the worst of mis-selling, or are we just scratching the tip of the iceberg?

Dermot Nolan: I certainly hope we are over the worst but it is perhaps too strong to say that I believe we are. We have up to 20 enforcement cases open at the moment, so there are a considerable number. That is a matter of public record. I apologise if I am incorrect, but my sense is that only one of those relates to mis-selling and that is a smaller company. So I believe we are over the worst. The question is whether the industry has learned its lesson and does not go back to the well of poor selling practices in the future.

We have made it clear to the industry that any enforcement action we take in any area, including mis-selling, will be subject to higher penalties going forward. Any behaviour post-1 June 2014 will be subject to higher fines. A number of cases are going through at the moment and, although I have no idea what will happen to them—ultimately, enforcement decisions are not taken by me but by an independent panel—should they lead to fines being levied, they will be at a higher level than before. However, the majority are not about mis-selling. A couple of them do relate, however, to something we introduced with the RMR, which is the idea of the standard of conduct.

It comes back to what I said earlier, that by and large the test we wanted to apply to energy companies was whether they were treating their customers fairly. We think that that is the best test, going forward. At least two of the cases we are currently running are to see whether companies have breached the standards of conduct we set out for them, whether they have breached their duty to treat customers fairly. I don't know how those cases will pan out, they are both against very major companies that will be known to you, but they will be an important test for the enforcement regime. They are not about mis-selling, but about issues of complaint-handling and customer service. I would say that that is the biggest problem in the market now, rather than mis-selling.

Q65 Christopher Pincher: In terms of the penalties you are levying, you say that, post-2014, the penalties are increasing. Given that you said earlier that it appears, based on your forward projections, that margins are increasing, are the penalty increases mirroring the margin increases? If not, you will be in a situation where penalties will impact less, given the margins these companies are making.

Dermot Nolan: I don't believe that that's the case. If you're asking me for an absolute guarantee that a company that has been fined is not passing that on, I cannot give you an absolute guarantee. Again, we are in a competitive process. If a company has been fined, the damage to that company is not just the monetary loss it suffers but also, frankly, the naming and shaming. That damage is one point. If a company in a competitive market tried to pass that on—and, as I said earlier, the market is not as competitive as it should be—it should lose customers. So, although I

cannot give you an unequivocal guarantee that a company that has been fined is not trying to recover it through tariffs, I think that it has been damaged by being named and shamed and that the phenomenon of rising margins is, I am afraid, a persistent one. The phenomenon of the rock and feathers that I referred to earlier has been something we have seen over the past five or 10 years, so it is, frankly and disturbingly, nothing new. That is one of the main reasons, as I said, that we have referred to the CMA.

I make one further point, because it is an interesting theme. We are looking to explore, and that is all I shall say at this point, ways in which, looking at the financial services industry, we can ensure that responsibility is taken by very senior people in the companies involved. A strong deterrent policy for fines is important, but it has been put to us, and I am not saying that I fully agree, that a company might be able to just pay a fine—okay, it has been named and shamed, but it continues—and that putting specific duties on senior officers, such as CEOs, for delivery, making them more culpable if something goes wrong, would be a good way forward. We are currently exploring those options.

It has also been put to us that top executives in the energy sector are demoralised and feeling fairly down about things, but I confess that I don't have a great degree of sympathy for that: the general thrust of making people accountable for service is really the way forward for us in enforcement.

Q66 Christopher Pincher: I am sure they have things to fall back on. Has the naming and shaming, as well as the fines, made door-to-door mis-selling a thing of the past, or is there still a role for door-to-door selling?

Dermot Nolan: Certainly, the larger companies do not engage in door-to-door selling. At the moment it is a thing of the past. It is not banned. If someone attempted a door-to-door sale I wouldn't have a problem with it, as long as they treated people fairly. I am hopeful that door-to-door selling will not occur in a major way in the next year or two, but I can see it as a possibility in the future if technology improves such that sufficient safeguards are in place. People might be able to look at a price-comparison website. Speaking hypothetically, and it's up to the companies involved to work out models for this, if a person is there with an iPad—though I shouldn't be advertising one particular company—or some particular device, and actually showed someone and gave them a sense they were getting a good deal, that could actually work, provided again that the person had the right to withdraw and had a cooling-off period. I could see it happening again. I don't think there is a place for it in the next short period of time, but if trust has been restored somewhat it can be a genuinely valuable tool to help people switch. As I said, I doubt whether any major company will do it in the next year.

Q67 Christopher Pincher: On what you might call high street to high street selling, the Citizens Advice Bureau website says that the methods of selling have been changing, which is self-evident. That presumably means that the methods of mis-selling can also change. Given that British Gas was fined £1 million for mis-selling in Sainsbury's stores at the Westfield shopping centre last year—which brings us back to the white label discussion we were having earlier—do you think that that is an aspect of mis-selling? I know you have said that you're coming up with ways and means of clarifying the rules around white label products, but do you think that is an aspect of mis-selling? Do you think that supermarkets, as well as the energy companies behind them supplying the products, have a responsibility to sell responsibly?

Dermot Nolan: Yes, absolutely.

Q68 Christopher Pincher: Because they're effectively the door-to-door salesmen.

Dermot Nolan: Yes, any white label supplier has a responsibility to sell responsibly. Absolutely, they do, and we would take action in that regard. Some of the discussions we have had about white labels are about ensuring that whoever is actually selling them must be selling responsibly; must both be adhering to retail market review rules and be utterly responsible, because the white label is responsible for offering a decent quality of service. I said earlier that white labels under the right circumstances can be a positive force; they have a brand. They may well offer high levels of customer service. People often trust brands that are very strong in the market, which they believe will treat them well. In principle, I have no objections to white labels, provided they treat customers responsibly.

Q69 Christopher Pincher: There seems to be a difference in what the penalties require. For example, npower and Scottish Power had to repay to consumers the penalties that were imposed upon them, but SSE was penalised £10.5 million for mis-selling yet that penalty was paid direct to Ofgem. Can you explain the difference between the penalties and why that particular penalty was paid to Ofgem and then what happened to the money?

Dermot Nolan: We have had a change in rules recently, which has allowed us to use some of what we consider the money for redress, instead of paying all the fines into the Treasury. We try and divide the overall penalty into two main aspects: one is the redress—the damage the consumers have suffered as a result of this behaviour—and the other is a punitive element. With the rules we have now, the punitive element is basically paid to the Treasury, but the redress is paid to consumers if possible. So consumers who have been directly harmed by the action would, if possible, be paid back directly. If there is no direct harm, it is paid to a suitable charity that would look after their interest. Ofgem has been given discretion in that regard. To give a recent example, we levied a very major fine—although the process is not fully complete—with regard to CERT and CESP cases before Christmas. The vast majority of that money has been channelled to the National Energy Action group, to go to low-income customers. That is the kind of area I think we will probably work on more in the future.

Q70 Christopher Pincher: I can see the rationale for the difference, but what is the balance? Do all fines for mis-selling get returned to consumers or does any of it go to the Treasury and do the other fines that you referred to, which I think you suggested form the greater part of the penalties, go to the Treasury?

Dermot Nolan: If I am wrong I will come back on this, but my recollection is that the SSE fine you referred to earlier was at a time that it all went to the Treasury. Since then the rules have changed in some sense; we have negotiated a situation with the Treasury whereby, although then they all went to the Treasury, any fine from mis-selling in the future will be divided into punitive and redress. Punitive will go to the Treasury; redress, to others. That will be the situation going forward.

Q71 Christopher Pincher: What is your proposed balance between punitive and redress?

Dermot Nolan: I hesitate to give a figure, because I would almost certainly be wrong. I would say that redress is usually a higher fraction than punitive, but I will get back to you if I am wrong on that.

Q72 Sir Robert Smith: I should declare a non-financial interest as one of the honorary vice-presidents of Energy Action Scotland. I would like some clarification. When you gave the money to NEA, was there any passporting of benefit to Scottish—

Dermot Nolan: I will say that the NEA very much welcomed the money. We have set in place processes to ensure that it is spent wisely, although of course I have a basic trust of NEA. A number of charities asked why the money went to NEA and said, “Would we not have had an opportunity to be involved in bidding for such?” We are working on ensuring that any redress money if possible goes back directly to consumers. We want a more robust system in future that ensures that any relevant charities have a chance to use that.

Q73 Sir Robert Smith: Obviously it is not UK-wide.

Dermot Nolan: I appreciate that. All I can say on that is I think the principle is sound—it should go to charitable organisations in the energy sector—and we want to ensure it goes UK-wide. If we made a mistake in that, I apologise.

Q74 Sir Robert Smith: On the rise in consumer complaints, you were going to write to suppliers in September urging them to deal more effectively with complaints. Have you had any response?

Dermot Nolan: They have all responded and given various assurances about their processes. The number of consumer complaints is still high; the ombudsman was mentioned earlier. We have had some indications that initially concerned me and would be hugely problematic—I won’t go into great detail on this—that certain suppliers may be very slow to respond to the ombudsman’s decisions. We have initial evidence of that. If so, that is utterly unacceptable and we will actively try to prevent it.

On the general level of complaints, it is an important indicator in the market that the level of complaints has risen dramatically, and it will take some time to fall.

Q75 Sir Robert Smith: Is there a main issue that is prompting complaints?

Dermot Nolan: I would not say there are myriad issues. As Mr Owen said, switching is a problem, but there is still a variety of issues. It is not just mis-selling; there are a number of complaints.

Q76 Sir Robert Smith: Is billing still a big problem?

Dermot Nolan: In terms of the two investigations I referred to earlier, where we are using standards of conduct, some were billing issues; some was just taking a long time to answer the

phone for the customer to talk to someone. One thing I would note in dealing with these activities, in both those cases I referred to, we adopted a twin-track approach during the process.

We commenced enforcement action against both companies involved. We also took measures at various points to say, “You must improve your performance immediately—perhaps over a month—rather than wait for the investigation.” The investigation will take place anyway and will obviously be fair and thorough. We gave requirements to both companies that they must improve their customer service, which related to answering the phone, billing and stuff such as that, over a short period of time, such as one, two or three months. They had to meet targets, otherwise we would ban them from engaging in new selling.

In that sense, the enforcement approach has two elements, which I believe work well together. One is an investigation and enforcement action, which we have been criticised for in the past for taking time. However, any enforcement action takes time because of the legal processes involved. There is also more short-run action, to say, “You have got to fix this problem in a hurry. If you don’t we will take more punitive action.” In this case it would have been applying to the court to prevent them from engaging in any further seeking of new customers.

Q77 Sir Robert Smith: Does it mainly concern suppliers or do you have rising complaints about transmission and distribution?

Dermot Nolan: To my recollection, it is mainly suppliers. We do not have rising complaints about transmission and distribution. Perhaps I should not throw around praise—the winter is still to come—but I will say one thing about the recent storms in northern Scotland. The company concerned did a pretty decent job—not so much in getting people back on supply; the one thing I noted and that I applaud is that they did a much better job in terms of how they treated vulnerable customers who were off supply. I wanted to mention that.

Q78 Sir Robert Smith: Finally, we have mentioned different products, but how do the electricity and gas market compare with the other utilities in terms of complaint handling?

Dermot Nolan: The number of complaints about energy is significantly higher than about telecoms and the complaint handling has been, on average, poor. Mr Pincher spoke earlier about mis-selling, and I hope we are over the worst of that. The biggest problem at the moment is dealing with complaints and being seen to deal with them quickly. We will work harder on that with the ombudsman. We will take significant enforcement action if necessary.

Sir Robert Smith: Right. Thanks very much.

Q79 Ian Lavery: I am looking at one of the reports on the management of the Government programme through E-Serve. E-Serve is a significant part of your operation; it has 386 full-time staff, which is 44% of your total work force. Have you any evidence to show how effective Ofgem is in managing Government programmes via E-Serve?

Dermot Nolan: I think E-Serve is very important. It is the part of Ofgem that has grown hugely over the last five years. We have published a lot of indicators—I will check and write to the Committee if necessary—on E-Serve’s delivery of the schemes. More than £5 billion goes through E-

Serve a year, so it handles very large amounts of money. It does so for well under 1% of the cost, and in a way that is positive and measurable. I will get back to you on certain criteria.

To give the Committee a sense of some of the things E-Serve has done, it administers the ECO scheme and the warm home discount, which are both Government schemes. It administers all the renewables obligations as well. We have also done something slightly different in the last 18 months. As Ofgem, E-Serve has set up the renewable heat incentive scheme, both domestic and non-domestic. It has directly set up and runs the scheme, which is slightly different, and that has absorbed a considerable amount of resources.

Q80 Ian Lavery: You just mentioned ECO. To quote the most recent ECO compliance update, progress towards some of the obligations is very slow, to say the least, with the ECO rural sub-obligation at only about 4%. What is Ofgem doing to improve performance in this field?

Dermot Nolan: We deliver and administer the scheme. It is important for us to engage in that administrative delivery on time. I think we have met various KPIs in that regard. In terms of the performance of the companies that are charged with doing this, Ofgem has a separate role in enforcement. These are obligations on companies. They are similar to the CERT and CESP cases on which we undertook enforcement action. We announced the result last year. If companies are not delivering their obligations, they will be subject to enforcement action and potentially fines. ECO replaced CERT and CESP. If suppliers are not delivering, we will take action. Obviously, we need to show this empirically, but I do not believe there has been a lack of progress in ECO because of the administrative actions of Ofgem. If suppliers are not delivering, Ofgem will take enforcement action.

Q81 Ian Lavery: They are obviously not delivering with regard to the rural sub-obligation, which stands at 4%. What can we do about that? What are you doing about it?

Dermot Nolan: On that specific case, we will have to refer back. These are things charged by the companies. The companies are supposed to deliver ECO. The role of Ofgem is to make sure that they have actually done what they say they have done. ECO is a portion of customers' bills—an increasing fraction of your bill—but we are actually charged with checking that suppliers have done what they are supposed to have done. We are not charged with doing it ourselves. So if they do it very slowly, E-Serve simply has to make sure that suppliers have done the work that they say they have done.

The enforcement part of Ofgem is charged with seeing whether companies have delivered on Government obligations. I think that that is the specific thing that you were referring to. We will take enforcement action against someone who is not delivering their obligations, as we did with CERT and CESP.

Q82 Ian Lavery: There are two areas in particular where publicly available information appears to be lacking. The first is the extent to which Ofgem is effective in achieving the desired outcomes of its ongoing programmes, and the second is the costs and productivity relating to Ofgem's administration of the programmes. What is Ofgem doing to improve transparency in those areas?

Dermot Nolan: We are engaged in that work at the moment. As I said earlier, a regulator needs to measure its performance, and we perhaps need to do better in that regard than we have done in the past. I have set up a workstream on strategic transformations, which I know is a rather grandiose term, and we are trying to come up with more measures of our output—more ways of measuring how we have done well or, potentially, poorly. The issues that you mentioned will come into that. I want to bring more information on that into the public domain in future, I really do.

Q83 Ian Lavery: So do you accept that there is a lack of transparency, particularly, although not only, in the two fields that I mentioned?

Dermot Nolan: I apologise, but I do not recall the exact statistics that we publish for those specific fields. My sense is that we have actually published a fair amount for E-Serve, but I accept that Ofgem could do better overall, and I promise you that we will do better.

Q84 Albert Owen: I want to ask about how you benchmark your productivity and efficiency within Ofgem. Your report discusses a number of issues, as did your predecessor in a letter to us relating to the previous Ofgem report. How do you benchmark your efficiency? I know that you get money from licensing and so on, but within the organisation, how do you do that, and how do you compare with other public bodies?

Dermot Nolan: Again, we probably could and will do better. We benchmark by going through a rigorous budgeting process and developing KPIs. Our budget has risen considerably over the past few years, predominantly to reflect the Government schemes and the growth of E-Serve. For the next year, we have actually announced a reduction in budget: we are attempting to achieve budget cuts of 7%, perhaps 10%. I personally think that it is important that the organisation does that after a period of five or six years of growth that was basically driven by the expansion of Government schemes. I felt that we needed to ensure that we were running as efficiently as possible and so start to reduce our budget. We are doing that while maintaining outputs.

In terms of actually measuring, we have various KPIs. I refer to the project that I have set in motion, which I think will deliver two things. First, it will deliver a greater set of KPIs by which we can measure whether we have delivered. Our current KPIs are good, but they can be improved, and they do not capture every aspect of the customer experience and whether we are genuinely making a real, positive difference for consumers, which is our overarching aim.

I also want to look at other public bodies in order to see what we can learn from them about measuring our impact. For example, I spoke earlier about the Competition and Markets Authority, which has developed a methodology over the years to measure how much consumer benefit it generates for every pound it spends. It says that it has achieved a 10 for one ratio. I looked at that methodology and thought, “Well, I could question it,” but at the very least it has a methodology that it has worked on and to which it regularly subjects itself. I want similar methodologies for Ofgem.

As a slight defence, I must say that I think that many public bodies—I am not trying to criticise them—have not done enough in that regard, partly because it is very hard. It is hard to be precise about what impact interventions have made in terms of the state of competition and consumer welfare. It is hard to measure, and any measure that you use will inevitably be wrong, but we must develop more in that regard. Even if it is wrong, at least it is out there and being discussed, and it provides a way to evaluate us.

Q85 Albert Owen: Sure, but in many ways the public will see you as a regulator, not as a Government delivery body. As you said, your work has been increasing because of the amount of work that the Government have given to you, and with that comes a reimbursement, so what are the incentives for you not to continue down that path and say, “We’ll have a bit more of this and increase resources”? I hear what you say about your plan to reduce your budget, but your incentive is to carry out what the Government tell you. You get reimbursement through licence or by DECC itself. What sort of incentive do you have to drive down costs?

Dermot Nolan: About 65% of our budget comes from what would be called licence fees. We have discretion to set those fees, which are levied on the industry. Most of what would be perceived as traditional regulatory work is in that area. It is subject to general Treasury cost caps. Over the next few years, I want to try to drive down that figure and to measure it better. I do not think that is inconsistent with our independence. If our roles do indeed change, which is always possible after an election, the new Government or the CMA itself might want to change our roles. If we retain our current set of regulatory tasks, I want to drive down those costs over the next few years. That is what an efficient organisation should do.

The remaining 35% of our budget comes not from licence fees but through DECC. It is part of the general Government vote, and it is for the delivery of the scheme itself. In that sense, we are actually very like any Government Department. We go through DECC, and there is a perception that we have to drive down costs. We have committed to a 10% reduction in those costs next year. If nothing else, the Treasury and DECC serve as a check in that regard.

Q86 Albert Owen: Going back to your annual report, you talk about efficiency savings, with two examples being £4 million on E-Serve and £1.1 million on the licence fee. What is that measured against?

Dermot Nolan: For E-Serve it is measured against the operating costs of delivery, and how they have reduced over the years to meet fixed output levels. For the licence fee, it is more difficult to measure. Basically, we have forced down budgets, because it is more difficult to measure against a constant output. As I said, we have to work further on that.

Q87 Albert Owen: I have the last question, but I would like to finish on something slightly different. I think this is your first appearance before us, but in the past I have put this question to your predecessors and to Secretaries of State without ever really getting a satisfactory answer. If you feel that you do not have sufficient resources or powers, then the politicians and the Secretaries of State tell us that it is for you to approach them. Yet your predecessor said that that was a matter for the Government. From the short period in which you have been in the job, do you think that you have sufficient powers and responsibilities? If you do not, how do you approach Government? If you have approached the Government, what was their response?

Dermot Nolan: I will try to give an answer. I do not know if it will be entirely satisfactory, but I will do my best because it is a very fair question. I think that we have sufficient powers—subject to one or two things that I will come to—in terms of the delivery of the framework that has been set out, which is to rely on competition where possible. I really do think so. Subject to some of the issues that I mentioned earlier to Mr Pincher, I personally believe that we might look to the Government—whatever the next Government are—for further powers to get people to take responsibility. I am not

trying to alarm the executives of energy companies, as obviously we would exercise those powers proportionately. This might require statutory change. We are studying that at the moment, and I think we would ask for this.

Some of the other functions that have been discussed relate to whether or not the regulator should have the powers to set prices. That is really a matter for the Government, because that reflects the overall stance. That is not something on which I would seek or offer an opinion, as it is a matter for the Government. Given the framework we have, we may look for further powers in some of the areas I have talked about.

In terms of further duties and functions, I have spoken before about the off-gas grid and one or two other areas. I personally think that we should be looking for extra functions on this. There will be administrative issues, and we are thinking about this. We will present a paper to the Government, but I personally think that this has value because there is incongruity, which I have spoken about before. That is one example on which we would approach the Government. We have already assembled a list of cases for which we may look for a certain power or a certain duty. However, we will not approach Government to ask them to give us powers to set or not set prices. We will do whatever the Government tell us in that regard.

Albert Owen: That is a fair answer. Thank you.

Q88 Sir Robert Smith: Is there a timetable for when you might approach the Government about the off-gas grid?

Dermot Nolan: Yes, it will be after the election in May or June, frankly.

Q89 Sir Robert Smith: You will see what the electorate do first.

Dermot Nolan: I am afraid I cannot really comment on that, but that will be the appropriate time to say to a new Government that we have assessed the situation, and if they indeed want us to do this job to explain how it might look.

Chair: I think that concludes the questioning. Thank you very much for coming in. It was a very useful session for us. If this is the last time we see you formally before the election, thank you for what you have done in the past year.

Dermot Nolan: It was a pleasure. I am always happy to appear in front of the Committee. Thank you.