HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: The impact of coronavirus on business and workers, HC 219

Thursday 4 June 2020

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Paul Howell; Mark Jenkinson; Ruth Jones; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

Questions 185 - 243

Witnesses

I: Stephen Phipson CBE, Chief Executive, Make UK; Mike Hawes, Chief Executive, The Society of Motor Manufacturers and Traders; Paul Everitt, Chief Executive, ADS; and Gareth Stace, Director General, UK Steel.

II: Gillian Cooper, Interim Head of Energy Policy, Citizens Advice; Audrey Gallacher, Interim CEO and Director of Policy, Energy UK; Fintan Slye, Executive Director, National Grid ESO; and Jonathan Brearley, Chief Executive, Ofgem.

Examination of witnesses

Witnesses: Stephen Phipson, Mike Hawes, Paul Everitt and Gareth Stace.

Q185 **Chair:** Welcome to the latest Business, Energy and Industrial Strategy Committee hearing on the impact of Covid on the manufacturing and energy sectors today. Before we begin, I ought to declare my interest, in that my wife is the head of external affairs at the Association for Decentralised Energy, which has submitted evidence to this inquiry.

We will move to our first session. Before we get going with questions, I might just ask our panellists to give a short introduction to who they are and who they are representing.

Stephen Phipson: Good morning, everyone. I am Stephen Phipson, the chief executive of Make UK, which used to be called the Engineering Employers Federation, the national membership organisation looking after manufacturing. We have around 22,000 companies in representation and about a million employees, across all sectors, so it is a real cross-sectoral representation of the manufacturing sector. It is just worthwhile mentioning to the Committee that UK Steel is part of it. I am very pleased that we have Gareth Stace, director general of UK Steel, with us today on the Committee.

Mike Hawes: Good morning. I am Mike Hawes, chief executive of the Society of Motor Manufacturers and Traders. We represent the automotive industry in the UK, which includes manufacturing, retail, aftermarket and basically the whole gamut.

Paul Everitt: Morning. My name is Paul Everitt. I am the chief executive of ADS. ADS is the national trade association for the UK's aerospace, defence, space and security industries.

Gareth Stace: My name is Gareth Stace. I am director general of UK Steel. UK Steel is the sector association that represents all six steel producers in the UK and almost all of the rerolling companies in the UK that are downstream of the steel producers.

Q186 **Chair:** It is a pleasure to welcome all of you with us today. I ought to say that we normally try to avoid all-male panels at our Committees here in Parliament. You are all welcome, but it reminds us of the diversity challenges that we have in some sectors in the economy.

As we get going, I am going to ask each of the witnesses to give the Committee a sense of the challenges that your sector was facing before Covid hit and how Covid has had an impact on those challenges as you start to look to the future.

Gareth Stace: The steel sector in the UK can, does and should more in the future make a difference to rebalancing regional economies and to ensuring that we make supply chains in the UK more robust and strengthen those and that, going forward, the steel sector can be a contributor and an enabler to the UK's ambition for net zero carbon. We employ 32,000 people directly in our sector in the UK, and probably four or five times more in our supply chain, and we pay those 32,000 employees something like 46% more than the average salaries in the areas that we operate, for example in Wales and Yorkshire and Humberside.

Before this crisis we were in a difficult position. Globally, the price of steel was at a two or three-year low. The price of raw materials was at a five-year high, so that margin was very much squeezed. As a sector in the UK, we are still uncompetitive because of electricity prices. We still pay more than 50% more for our electricity than our competitors in Germany. We still pay five or 10 times more for business rates than our competitors in France and Germany. Also, that regime discourages future investment in plant and machinery, rather than encouraging it.

We are in a difficult position today; we are in the worst crisis and threat to our sector in the UK since 2007-08. We know that Government need to build a bridge for us to get to the other side of this crisis, and they are still building that bridge. I hope I will have the chance today to get across the importance of looking to the future, because really there is no point in the Government saving or stopping the steel sector going out of business in the next few months if the Government are not going to work with us as industry and trade unions to look to the future, to develop and implement a much brighter and more sustainable future for the UK going forward. It is totally within the Government's gift to do that, and that is, personally and for my organisation, what we would really like to focus on, in terms of our engagement with yourselves as the Committee but also in terms of with Government, because it is the future we need to look at. We need to get beyond today but really focus on that future.

Q187 **Chair:** Presumably, before the pandemic your sector was having to think about the Brexit transition, looking to maybe the free trade agreement negotiations with the United States and thinking about decarbonisation. How has the Covid pandemic, if at all, impacted on those objectives?

Gareth Stace: We need to get through the crisis, so all of the focus is on surviving this crisis. Brexit has taken a backseat, but, like with all sectors, Brexit was delivering huge challenges for our sector, particularly as we would like to see the steel sector as a bastion of free trade. We do not have border tariffs on steel; it was agreed in the 1980s that we would not do that, because steel needs to travel across borders. Over 40% of all steel produced in the world travels across borders. Even in the UK, we export 50% of what we make. Therefore, for us it is not about tariffs, because there will not be any, but it is about tariffs downstream from us. Ae will hear about that from other witnesses today.

Also, in the UK, it is about trade barriers that are being put up in terms of what we call section 232, where the US Administration are blocking as many imports as they can by applying a 25% tariff to all steel entering the US economy. Given that it is our second biggest export market, that represents a huge challenge for us. If I was commenting on the UK's proposal in terms of a UK-US trade agreement, I would say it is completely a non-starter unless, even before anything is agreed, the US agrees to cancel section 232 for UK exports into the US.

I would just like to add, in terms of net zero carbon, the steel sector does not need to be a problem here. It actually can be and should be a solution. Globally, the steel sector is a significant emitter of carbon and that is the same in the UK, but let me tell you today that all six steel producers in the UK have net zero carbon targets. What we need to be able to do is work with the Government to have a really exciting ambition to be the first region in the world, in terms of the steel sector, to get to net zero carbon.

We cannot do it on our own as an industry with a global sector where the price is set globally, but we can do it if we work with the trade unions, industry and Government together to deliver that ambition. Running up to the COP, which was going to be at the end of this year and will now be at the end of next year, would that not be amazing and incredible and show that Government are backing industry in the UK, if the Government said, "Yes, we will work with you and we will aim to deliver that. However hard that is going to be, we will aim to deliver that, so we show leadership to the global steel sector, but also to the global community in terms of what we want to do in the UK for net zero carbon"?

Q188 **Chair:** Thank you for that. We will no doubt want to come back to talk to you about net zero under our separate inquiry on that issue. Moving to Paul Everitt on behalf of ADS, we are all reading and understanding the significant difficulties in the aerospace sector and for many of your members, but I wonder if you could give us that starter for 10 about challenges before the pandemic and how the pandemic is impacting on industry in your sector.

Paul Everitt: I am happy to. I am going to focus most of my comments around aerospace. The challenges have been slightly different in defence, security and space. There are some difficulties further ahead, rather than just at the moment.

Aerospace went into this crisis, if we turn back to January and February, in good health. The sector was growing in the UK. We had strong order books. The key challenges as an industry were around how we increased production in order to meet our airline customers' demands. We were similarly focused on how we were going to continue and, indeed, increase investment, in order to meet the broader environmental challenges, particularly around achieving net zero by 2050. We were in a good place.

The crisis has brought a very sharp halt to aviation and the wider aerospace industry. This is probably the most challenging period I have ever seen in our industry. We are going to see tens of thousands of people across the UK aerospace industry losing their jobs in the coming weeks and months, because there is no demand. It is going to be difficult to see that level of demand return quickly, and that means companies are being forced to face very difficult resizing and restructuring decisions either in these coming weeks or in the months ahead. For us, this is a very difficult period.

Government action has been timely. There is more they can do and, if they are able to make some fairly key decisions in the coming weeks and months, we can mitigate the longer-term impact of those job losses. When we look to our colleagues in France, Germany and the US, effectively those Governments are recognising that aerospace and aviation will return to growth in the years ahead, and they are effectively ensuring that their countries and companies have the ability to compete and to win business in the longer term. The risk that we face in the UK is if we do not act quickly, then, as growth returns, the economic benefits of that growth will be captured in those competing countries and not here in the UK.

Q189 **Chair:** We know that the aerospace sector is a significant part of British exports, and one of the main areas of export growth in the last decade. You have talked about those very significant potential job losses. Could you talk to us about what those types of jobs are? Presumably they are skilled jobs that take time for people to develop the know-how to do what they do. What would the impact be for losing those workers now for that growth prospect in the future? Thinking about that from a supply chain perspective as well, these are not just big multinational companies. You have very significant supply chains. How does Covid impact on those dynamics?

Paul Everitt: As is consistent across manufacturing, we provide high-value, long-term jobs. £40,000 to £50,000 is the average salary across our sector, in parts of the country where those types of jobs are relatively rare. They are also engineering and design-engineering, as well as the manufacturing activity. We design, develop and manufacture some of the most complex products anywhere in the world.

To your opening comments about the male domination, we also have a demographic challenge, in that our workforce is older than in some other sectors. That means, inevitably, when we go through these types of periods, we are losing many of the most experienced people from our businesses, and that experience and capability is not easily replaced.

Our general concern, both among the large companies but particularly, as you highlight, down and through the supply chain, is that there are hundreds of small and medium-sized enterprises in our membership that support the aerospace industry in the UK and internationally, and those businesses are under intense pressure, because airlines are our customers. Our main revenue flows from the new aircraft they buy, but also from the regular maintenance, repair and overhaul associated with those products and those aircraft flying. We have now gone through 10 or 11 weeks where businesses have not seen any revenue and, given the slow expected start to flying, that is only going to increase the pressure in the weeks and months ahead.

Q190 **Chair:** Mike Hawes, on behalf of the motor manufacture industry, specifically from your sector, what do you have to add beyond what our previous witnesses have offered today?

Mike Hawes: If you look globally, first of all, the automotive sector faces a number of challenges simultaneously. Undoubtedly, environmental issues were coming to the fore. The technological changes that are affecting mobility, in terms of provision of connectivity services and increasing autonomy, were leading to a change. The whole approach that society has towards mobility is changing and is a major threat or, indeed, an opportunity for the industry.

On top of that, as Gareth mentioned, there are trade tensions. There was the threat of section 232 tariffs in the US, which expired in November, fortunately, but they are still there. The Brexit issue hangs like a pall over the industry, because it fundamentally threatens our competitiveness. Unlike steel and some other products, we face the potential threat of tariffs. When you are in a high-volume, low-margin business, a 10% tariff removes any chance of competitiveness, hence the importance of getting a deal.

Looking specifically at automotive in the UK and the effect of Covid, essentially you have seen, like many other parts of the world, a shutdown. Retail operations have been shut for eight weeks or something. They finally reopened this Monday. We produced this morning the registration figures for May.

Q191 **Chair:** We have unfortunately lost you, Mike. If you are able to rejoin us, we might come back to you just to finish that answer. In the meantime, could we move to Stephen Phipson from Make UK? You have a sectoral-wide view of these issues. When do you think trading conditions are going to improve? Are you able to have sight of when that is likely to come and how the sectors that you represent might be able to survive, in order to get back to that period of normality and growth?

Stephen Phipson: It is probably worth just stepping back a little bit and answering the question of where we were to start with. I am sure you are aware of this. The UK manufacturing sector is a very important part of the UK economy. Some 2.7 million high-value jobs has been mentioned before, but most importantly, it is 45% of the exports of the country. We were tracking before the pandemic a softening in those export orders. It was that that we were very concerned about, and where demand was weakening in different sectors of the manufacturing area.

To reflect on the other comments, the uncertainties and challenges we were dealing with were the uncertainties around integrated supply chains with Europe—we are very integrated in terms of the way that we manufacture—and also the demand from Europe, bearing in mind we are exiting the EU, and how that is going to look going forwards. We were dealing with those kinds of issues.

The number one issue in our sector, though, is always skills, and we will develop that as we go through today's discussion. Working with Government on how we can bolster those advanced manufacturing skills for the sector is absolutely critical.

Really, the big challenge over and above that is digitisation, so really pushing and working closely with BEIS on things like Made Smarter, to try to roll out digitisation in the sector to improve the productivity gap we have seen for so many years, and also to contribute to the green agenda. Digitisation and green technologies are linked very closely together, and many manufacturers have been adopting those to try to make real progress on their green credentials.

Where we are now is we have seen a collapse in demand. You have heard some of that sectorally today. Just to reflect some of the statistics, at the moment only 12% of companies across the manufacturing sector in the UK are operating at full capacity. It is interesting to note that through the pandemic, through the lockdown, some sectors have been operating quite substantially. Food and drink manufacturing, for example, which is the largest manufacturing sector, has been operating at something like 120% of normal output throughout this, and that encompasses 500,000 employees, so it is a really valuable part of what we are doing. It is the same with pharmaceutical manufacturing.

Other areas have experienced an absolute collapse in demand. That is what we are facing, and, as a result, 85% of all the manufacturers in the country across all sectors have taken advantage of the Government's furlough scheme. I daresay I will talk about that in a bit more detail today. The really worrying thing is that we are not seeing anything like a return to demand across all sectors, with the exception perhaps of food and drink and pharma.

We are checking the statistics every two weeks with thousands and thousands of manufacturers, so it is relevant data. Around 25% are planning to make redundancies in the next few months, and that is reflected in some of the comments you have heard now. One of the key challenges, which I was talking to the Education Secretary about yesterday, is about the retention of skills; we might get on to that into the future. That is really important, because these are highly skilled jobs. It takes a long time to get them. We already have a skills shortage. We cannot afford to be losing a lot of those highly skilled jobs from this sector.

What we are looking at now, in the common view, is not a sudden bounce back and a return to where we were pre-pandemic. We are looking at, because of some of the structural issues we have heard about already, quite a slow return, and so, therefore, there is an absolute need here for Government intervention to support this valuable sector going forward.

Q192 **Chair:** Just very briefly, before we move on to questions from my colleagues, I think we have our colleague back from SMMT. Do you want to finish what you were saying before your internet interrupted you?

Mike Hawes: My apologies. You have the energy sector coming on next; I had a power cut.

In respect of the UK, essentially, retail was shut. Production was closed. What matters now is about how we restart, and that is much more difficult than closing. We need to make sure that there is demand there, that there is supply there and that the supply chain and manufacturing OEMs and tier 1s can operate collaboratively, to try to get back to business, because the fear is, because you need first and foremost to make sure your work environment is safe, that has meant you are implementing social distancing. That reduces the capability you have to produce at full capacity. I mentioned earlier that we are high volume. Sometimes you are producing vehicles as frequently as every 55 seconds. You cannot do that while maintaining two-metre social distancing, so how do you manage that?

We will probably lose around 200,000 units of production this year—that is worth about £12.5 billion—as a result of this, and we cannot catch that back, so there is now going to be a serious impact on operations over the course of the year. In terms of the international market, we need international markets to come back, because we are an export-led industry. Some 80% of what we produce goes abroad.

Q193 **Paul Howell:** Just to touch on what you have just started to comment on, about the problems that you have in terms of the environment you are having to work in, at the start of this the Committee received about 2,000 emails from people who felt unsafe in the workplace. Can you talk to us about the measures that have needed to be implemented to make employees safe and to give them confidence that they are safe? Can I just ask you to comment on that for the different sectors, please?

Mike Hawes: Shall I go first, given I just touched on that? The most important issue is to make sure people can return to work and it is a safe environment. We have worked with the unions and with Government to produce guidance for manufacturing, for aftermarket and for retail. Essentially, that means maintaining social distancing at two metres, which has had, as I said, a severe impact on productivity, as you would expect.

In terms of providing hygiene facilities, in terms of flow of people and in terms of access to sites, all these types of issues have to be considered. Everyone who has been able to open has had to undertake a full risk assessment, working with the unions and working with staff representatives as appropriate, to try to assure staff that it is, indeed, as you describe, a safe environment to come back to. We still have some people out on furlough. Not everyone is back, because when you are operating at reduced capacity, then we still do not have everyone back off furlough. That is true of both the retail and manufacturing sectors.

In terms of retail, having just opened on Monday, again, it was communication not just to staff, but also communication to potential customers that these measures were in place and that they would be safe. It is relatively easy in those sorts of environments to put in one-way systems and so forth.

The key challenge is, as you alluded to, doing everything you can to maintain that confidence of the workforce. One of the challenges to a lot of our members, often who are foreign-owned, is that the guidance in other plants and coming potentially from headquarters abroad will be different from that being implemented in the UK. Here we adhere to a two-metre social distancing requirement. In other countries it is 1.5 metres; some are a bit lower than that. Again, we have to apply what is right and what is instructed for the UK, and that has been two metres, but it has had a consequent effect on capability.

Paul Everitt: In our sector, certainly across defence in particular, but also space and aerospace, we have worked throughout the lockdown period. Almost universally, companies have worked closely with their employees and trade union representatives to put in place a set of measures and, in many cases, to redesign key aspects of the manufacturing process, in order to ensure that the two-metre social distancing can be maintained. Where it cannot be maintained, the processes have been redesigned to ensure that people are in closer contact for the minimum amount of time.

Our experience has been very good. Indeed, we were able to support the wider business guidance that the Department for Business published a few weeks ago. Just to echo Mike, our employers' focus has been on ensuring that their employees are safe and are comfortable in that working environment. Our bigger challenges have actually been in the process of getting people to and from work, where some of the guidance or conditions have not been so straightforward.

Stephen Phipson: If I could just build on those points, just as a general note, there are a couple of points that are really important to bring out here. As you have heard, a number of these sectors have been operating throughout the lockdown period. Some of those are international businesses, which have taken their experience from other countries to the UK in many cases.

There are two points. The common theme is this risk assessment process and making that consultative; that is the point. Having the involvement of the unions and the employees in building those risk assessments has given confidence to many staff to return to work into a safe environment. That is a learning that has happened through a lot of the larger companies that have continued to operate throughout the lockdown period. That is important.

Some of the common issues that come up in many sectors have been about transport to and from plants, in terms of how to get people there.

There are lots of different schemes in place around that, and public transport is not such a big issue in terms of manufacturing, because most manufacturing is not centred in the centre of cities. It is outside of that, and people tend to travel by cars and things like that to their places of work. Quite a lot of attention has been put into getting people to work. The thing that is outside of their control a little bit has been childcare, which has affected employees' ability to return to work, so that is, again, part of the confidence.

You have also seen a number of companies develop their own safety equipment and their own PPE requirements, in order to protect staff, not to the NHS standard but to an appropriate level, as a result of working with the unions and with staff on the risk assessment process.

Generally, my sense is that across the sector a lot of companies, because manufacturing is used to working within an HSE environment to quite strict health and safety requirements, have been quite good at involving their teams and their staff in making sure these risk assessments are fit for purpose and give confidence for people to come back to work. That has worked quite well. We have also inputted a lot of that into the return-to-work process with BEIS officials in preparation for the guidance to be issued. Generally speaking, we got into a fairly good place with the sector, if you look at it.

Gareth Stace: I support everything that everyone has said, and I do not want to waste any time, but the steel sector has worked throughout this crisis, despite us seeing a 50% drop-off in orders. We wanted to go beyond the Government's guidelines on safe working, and so right at the beginning of this process, as the steel sector, we, representing the employers, worked directly with the trade unions, which are Community, Unite and GMB, and we drafted together a steel sector safe working guide for workers in the steel sector. That is, like I say, a joint employers and industry guide for safe working. I am really proud that, as a sector, we can do that and that we, as employers, have such a good relationship with the trade unions.

Q194 **Paul Howell:** Just to come back round on that slightly, I have been and talked to a number of companies. As you rightly say, some of the bigger companies have had the capacity to work with the unions and get some really good, excellent working practice. I have seen them then reach out into the supply chain to try to help to educate the smaller SMEs that need a bit more guidance and the like. Can you expand that conversation a little bit, in terms of how the guidance from Government has come out and how you have seen the bigger companies help the little companies in terms of getting to a place where they are sustainable, because, as a number of you have already said, if the supply chain does not work, the top business does not work?

Stephen Phipson: What we have seen is quite a bit of leadership from the larger companies in helping their supply chains, in terms of guidance around how to do risk assessments, which has been really helpful. We have been helping convene some of that in different regions of the country, to make sure best practice has flowed down to the supply chain. It is not only that; we have also seen a number of companies, including some of the larger automotive businesses, tool up their own PPE and then make that available to their supply chain, because we are making sure we are not taking anything away from the NHS requirement or anything like that and making sure that they are following the same sorts of guidelines.

It is interesting to note that, in some cases, it is affecting the way supply chains are working. A lot of companies are putting in now requirements for checking delivery drivers and then washing of parts before they get into the factory process, which are additional to where we were before, so challenging some of the processes we used to use for just-in-time manufacturing, et cetera. They have to work really closely with their supply chain to make sure those things work. We have seen a lot of that working very well. The areas that did continue to operate at full pace through the lockdown have developed a lot of that thinking, so it has been quite interesting to see the support from the larger companies to the smaller companies, and then sharing that within their local and regional communities.

Q195 **Mark Pawsey:** I just want to pick up a point that Mike raised about the additional costs of operating with social-distancing practices. Mike, you said that cars cannot be made at the same speed that they were previously. Do you have a sense of what the additional cost per vehicle might be in percentage terms? Is it 5% or 10% more expensive to produce the vehicle? You reminded us that this is a high-volume, low-margin business, and presumably the additional costs of production are eating into any profit that manufacturers might be making.

Mike Hawes: It is much more expensive. It is a difficult thing to calculate, because, essentially, the same problems and challenges go down into the supply chain. They are equally having to struggle to produce the parts at the same efficiency and hence the same cost to do so, but they have fixed-price contracts.

One particular manufacturer is operating at two-metre social distancing. The maximum output they can manage under those terms is 50% of normal. If that was to be down at 1 metre, they could operate at 100%. In effect, your maximum opportunity is only half what you would normally be at. For some plants, it can be up to 500,000 vehicles per annum. When you are talking about premium, high-value specialists, in some instances it is down to around 10,000, so it does vary from plant to plant. No one has done a formal cost, other than to say that, by definition, if the maximum you can operate at is 50%, that is not healthy or viable for the long term.

Q196 **Mark Jenkinson:** Stephen, you mentioned before that 85% of your members are using the Coronavirus Job Retention Scheme. On 29 May the Chancellor announced changes to that scheme. What was your assessment of the reforms and the impact they will have on those members who have had to access the scheme?

Stephen Phipson: First of all, we welcomed it, to be clear. Many people were worried about a cliff edge, in terms of bringing that to the end of its time at the first phase, which was the end of June. As a consequence of that, we saw a lot of people accelerating their plans for redundancy, because that was the only other option they had in the face of very low demand. We welcome the extension. That was good and we worked very hard with the Treasury on that issue.

We also welcome the flexibility that is in there, because one of the challenges was that, if people were seeing partial demand return, it was very difficult, under the existing arrangements, to bring people back one or two days a week and to continue to support the balance of that on the job retention scheme. The additional flexibility helps quite a bit. There was always a recognition, broadly across the sector, that this type of support could not continue forever. We understood that there would be a tapering of the scheme as it works towards the end at the end of October.

There was a general welcoming of where we were in terms of the changes to the JRS, particularly welcoming the flexibility and the extension. It is now apparent that when the job retention scheme was designed, we were expecting a V-shape bounce-back in demand to where we were before, and that clearly is not going to happen now. We are now in the next stage of what happens after the job retention scheme, but initially, and specifically on that point, we welcome the changes that the Government have put into the scheme so far.

Q197 **Mark Jenkinson:** Reporting at the time suggested the flexibility went a bit further than some had expected. Was that the case for you, or did it not go far enough? Is there more that could happen there?

Stephen Phipson: First of all, the flexibility that was introduced was exactly what we were saying. That was exactly what was coming back from many companies around the country. We needed more flexibility, particularly around the three-week rule that is in there, and reducing that down to the one-week rule is a very good step forward.

That was important, but the issue now is whether it is enough to stop what inevitably is going to be a restructuring of many companies because they cannot see demand coming back. The answer to that is probably not, so we need to think about what comes next after the job retention scheme. That is the important point at the moment.

Q198 **Alan Brown:** If I look at the bigger picture, the Government have introduced a number of grant and loan schemes since the start of the Covid outbreak. I am just curious to know whether the financial support mechanisms are working adequately across all parts of your industry.

Stephen Phipson: The broad point here is that we got off to a fairly shaky start, with things like CBILS and where we were there, but the Government worked very hard with us and a lot of other representative organisations through the first few weeks of that to iterate and amend the schemes to make them more accessible. Certainly, some of those schemes are now very well appreciated, such as the Bounce Back Loan Scheme and where the CBILS scheme has got to.

We still have some challenges around us. The credit insurance market is one that a lot of smaller manufacturers take advantage of and, although there is a broad Government guarantee in place now, that is still being quite difficult and it precludes some people from accessing some of those schemes.

There is a very serious concern still about some of the larger companies, which do not qualify for many of these schemes. Even with the CBILS-plus, which is the move from £50 million to £200 million of support, some of the conditions around that are very challenging for lots of companies, particularly around the seniority of debt. We have some companies there that have tried very hard. We have been supporting them. Some are well-known household names in the automotive sector. I would cite McLaren as a good example of that, which we have worked at very hard with Ministers over the last few weeks, but it is unable to access some of those support schemes. We have really had challenges there, and we need to see other ways of having bilateral interventions to try to help those companies continue on to the future.

Mike Hawes: There is something of a mixed picture. The bounce-back loans that were introduced recently have been tremendously successful, because the barriers to entry are relatively low and the take-up has been very strong. That has a lot of strong feedback.

As Stephen said, the challenge is sometimes the attitude of banks towards manufacturing in general. We opened this session by talking about some of the existing challenges that are there, and some of the requirements about proving what your future cashflow forecast and level of solvency are going to be in such an uncertain world is very difficult.

Getting access has improved, and I know the banks have been working particularly hard to work through some of that backlog, but, as Stephen said, we have some key members, which are large companies on the cutting edge of technological innovation, that do not fit within those schemes, given their particular structure. McLaren is one of them but they are not unique. There needs to be a degree of flexibility, potentially, to allow certain companies to have access by potentially amending some of the requirements around it, because the structure of these companies is not consistent across the entire sector.

Gareth Stace: I concur with what has been said already. In the steel sector, liquidity is our biggest issue at the moment, in terms of that short-term concern, and it is now over 10 weeks since some steel companies applied directly to Government for a loan, because we fall through all those cracks of the normal schemes. It has been 10 weeks, and we still have not yet seen any delivery of those loans for the steel sector.

If I compare steel companies in France or Germany, the money has been in their bank within 10 days of them starting the application. They say it was one of the least bureaucratic processes they have ever been through to get 25% loans in the bank within 10 days. It is really difficult for us as a sector to keep hanging on when liquidity is our biggest issue.

Mike Hawes: The real pressure on the supply chain and liquidity is going to come now, as you start to reopen, because at the moment you have been hunkering down trying not to spend any money. Now you have to pay suppliers. You are paying staff and so forth. The pressure on cashflow becomes at its most intense now, so this is when the pressure on those schemes is going to be at its most intense as well.

Q199 **Alan Brown:** Mike, you touched on what I was going to ask next. We know we need to have the restart. In terms of manufacturing, some orders were being completed at the start of this, but going ahead it is about getting new orders to fulfil. Paul, what elements of the existing financial support will need to be retained and for how long, and are there any further measures needed in terms of the restart phase?

Paul Everitt: We definitely need to see some further measures, because, as others have already said, short-term debt and loans keep businesses alive, but they do not allow them to thrive. We need to see longer-term, patient capital invested into many of the businesses, particularly in the supply chain, so that they can ride out the next 18 months to two years and be investing in the future technology and future products that the market is going to want in the years ahead. If we do not get that kind of patient capital, others are. Effectively, the French, German, Chinese and US Governments are buying future market share by providing capital to companies now.

Q200 **Alan Brown:** That is interesting in terms of capital. Can I also ask Paul, Stephen and Mike quickly if they have any concerns about whether your members will have the ability to start repaying their loans in a year's time, what that debt might mean and whether perhaps some of the loans should be converted to grants?

Stephen Phipson: What has happened here is that many companies have taken on an enormous amount of debt, if you look at the numbers that have been through the schemes supporting businesses. When we survey our smaller members, 50% of the people who have taken out through the Bounce Back Loan Scheme are considering that that might be converted to a grant at some stage, because it is 100% backed by Government. I know that is a worrying trend that the banks are very concerned about at the moment, but a lot of these smaller companies were desperate for some of that funding, because it was a last resort as far as they were concerned. About half of them are thinking that that might be converted to a grant system at some stage.

The bigger picture here is that it is clear that we need to go through some sort of recapitalisation programme here as the next phase of what we do to get industry back up and running properly, and the Treasury is working on this quite actively at the moment. Recapitalisation will form a number of different issues. I know there is always the consideration as to whether the Government take equity stakes, but it does not have to be that. There are all kinds of other considerations there. I know there is a working group that is working on this at the moment.

This is going to be really important going forward, so that not only are companies then able to service the debt they have taken on to survive through the crisis, but, as Paul said quite rightly, the real concern is not only the ability to repay that debt but how you get new capital into these businesses to grow them in the future. It is absolutely vital for where we need to be over the next couple of years.

Q201 **Alan Brown:** Paul, is there an issue for your industry in terms of the travel quarantine impacting the ability of the industry to restart?

Paul Everitt: As you will not be surprised to hear, introducing a quarantine period at this time is not something we as an industry were particularly enthusiastic about. We absolutely wanted to ensure that the UK was protected from any further transmission of Covid, but we had believed that the right approach was to put in place enhanced health measures that effectively ensured that we minimised the risk of anyone getting on an aircraft who might be infected.

The three-week review of the quarantine mechanism really has dampened any enthusiasm or sense that we would get aviation flying quickly. We are now in a situation of further protracted uncertainty. For our customers, the airlines, the summer period is incredibly important. This is the period of the year when they have a shot of making some money that allows them to sustain through the rest of the year. The fact that they are not able to sell tickets with confidence for July and August is a clear worry and will only mean the recovery takes longer and is more painful.

Stephen Phipson: Passenger aircraft are really important for freight. The belly of the aircraft carries freight. Heathrow is the largest port in the country. For import and export in manufacturing that freight traffic that goes on to passenger aircraft is vital, so it is disappointing from that point of view.

The other point is that in the UK we are a hub for many capital goods-makers that have service technicians who travel across Europe servicing equipment, aircraft engines, you name it—the whole thing. Basically, limiting that process through these kinds of measures is going to be really damaging, again in a time of recovery. Yes, we would have hoped to see a different approach to this, but a blanket quarantine is absolutely not helpful at this time for the sector.

Q202 **Mark Pawsey:** We heard in the answer to that last question the issue of Government taking an equity stake in businesses, and there is talk of the Government's Project Birch. Some of the main beneficiaries of that would be in the aerospace sector. Paul, what discussions has your sector had with the Government on Project Birch, and which of your members should it be offered to?

Paul Everitt: We have not had any formal conversations with Government on Project Birch. Like many, we have just read about it in the newspapers. It is important to separate two issues. The first is the Government are rightly and properly supporting lots of loans to get companies through this crisis, and there will be a point where those loans have to be repaid and/or interest charged on them. That is going to be a difficult process. That is where, as I understand it, Project Birch is focused.

The second element, which was well captured in recent days by Stephen Welton from the Business Growth Fund, is around how we ensure that businesses are not just able to survive, do their business and just pay the interest on the loans they have, but are able to invest in their businesses so that they can grow. That is a very different approach.

You may have better intel than I do, but I am not aware of any aerospace companies that are engaged in direct talks with the Government at this particular moment in time. I know that the airlines, our customers, have been, but there has not been a great deal of progress around that at this time. We have been doing our own work on developing what we would see as a mixed investment model, so effectively Government contributing or underwriting an investment fund that would crowd in private investment that could then be used to support businesses over the longer term.

Q203 **Mark Pawsey:** Gareth Stace, steel has been calling for more Government support. What discussions have you had with the Government about Project Birch?

Gareth Stace: The same as Paul. There have been no direct discussions with Government on Project Birch, but I would assume, unofficially, that our bespoke applications for solutions on liquidity would, I hope, fall into that category.

Q204 **Mark Pawsey:** Mike Hawes, last time the Government had ownership of our motor industry I do not recall it ending particularly well. Do you think Project Birch and Government investment in our motor industry is necessary now, and how would we pick out who to support and how? Chair, I was directing that question to Mike Hawes, but we seem to have lost him.

In that case, I might make the point to Stephen. If the Government have a fund for equity investment in this way, how should they decide where it should go? What are the dangers of having Government investment in businesses? You spoke about how businesses would get other capital in if they know the Government are going to provide it.

Stephen Phipson: Project Birch is part of the recapitalisation project, on which we have been working on some of the working groups. Equity stakes are only one tool in the armoury here. There needs to be a big push on other aspects of this, and I know there are a range of considerations for recapitalisation, including, in extremis, the Government taking equity stakes.

The Government are not the best people to take equity stakes in many cases, in terms of the bandwidth of Treasury and the ability to manage those equity stakes, but the other things, such as attracting more FDI and bringing new capital into the country, are important. There are discussions on another work group around a student loan-type scheme for smaller businesses. You would do it on a profit-based return. You take a loan out and if you make profits, you are able to return it; after 20 or 30 years, you might forgive whatever the balance is.

Q205 **Mark Pawsey:** Stephen, it sounds as if you are not keen on the idea of Government taking equity stakes in manufacturing.

Stephen Phipson: History has taught us that it is not often the best solution. It might be a short-term solution, if you could do it for a short period to get those companies back up and supported. In the case of steel, there is a very strong case for doing it. We have seen it with what happened in British Steel's case, for example, before the pandemic for Government to come in and support it while a new buyer was found. Those temporary arrangements are quite sensible. They will have to be done on a bespoke basis and a bilateral basis. It is not broad-brush, but in those interventions there is a role for Government to take direct action with direct money and equity perhaps. There is a whole suite here. Government need to come up with a complete package of different measures that are going to attract new capital into the sector. That is the important point. We are looking at quite a short burn here. I understand that the first phases of that will be considered next week, and then we will be looking very quickly over the next few weeks to a plan.

Q206 **Alexander Stafford:** What medium and long-term measures will your members need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally? The environmental side of it is very important to me.

Paul Everitt: The key for us is about creating demand and ensuring that there is a bridge from the difficult period we are currently in to when the market is self-sustaining again. There are probably a number of key things for us.

On demand, particularly for the high-end engineering capability in the UK, Government could bring forward some of their R&D activities and increase investment in their R&D activities. We have a highly successful Aerospace Technology Institute. We have been pushing quite hard over a long period of time for its budget to be increased from around £150 million per annum to £300 million per annum, and this would be specifically investing in the technologies and capabilities for us to meet our requirements or our challenge around net zero carbon emissions. We would not only be generating demand for high-end capability, but we would be laying the foundations for future market success.

The second area of demand for us is for Government to bring forward some of their public procurement activity around defence and space projects and programmes, which would provide demand for some of those high-capability small and medium-sized enterprises in the supply chain, so that they could, if you like, fill in their order books, which are currently empty because of the impact on aerospace. As I said earlier, we want a longer-term funding package to ensure that we are able to sustain and invest in that supply chain over a longer period.

Gareth Stace: Paul mentioned procurement. From the steel sector point of view, this is something that I would like to focus on. The Government are firmly in the driving seat of the economy like never before. They applied the brake to deal with the pandemic and now they need to consider how soon they can very significantly apply the accelerator to drive the economy forward.

From our point of view, infrastructure spend is a real thing to focus on, in terms of helping sectors like steel and procurement within that. The Chancellor announced ages ago, long before the pandemic, in the Budget, a £640 billion spend in infrastructure. The Government could do more than that going forward, in terms of really kick-starting the economy.

From our point of view, steel is going to be used in all of the major and minor projects. Therefore, we need to ensure that it is steel from the UK where possible, where it adds value to the project, the local economy and the wider economy, and where it provides well-paid jobs, as I said before.

You asked about the environment. Why would you put steel from across the globe on a boat that takes a month to get here, with all those carbon emissions, to deliver it here and to this project, when actually you could be making the steel in the UK and delivering it to that project with exactly the specification that is needed, at the time it is needed, looking at zero carbon and delivering value to that project? Where we need to move from is where steel in the UK is provided to these projects almost as an exception. We need to move to where it is just the norm.

I would like to pick up on what the Prime Minister said last November: "We will back British business by ensuring the public sector buys British". As MPs you will have heard the Prime Minister yesterday in PMQs, where he said they want to make sure that, as HS2 goes forward, it maximises the use of steel from the UK. There really is an opportunity here. It is a no-brainer that if your Government are spending taxpayers' money, it should be spent in the best possible way to get value out of that; from our point of view, that would be steel from the UK, where it is competitive.

As the sector in the UK, we want to demonstrate to Government and to these major projects, particularly HS2 at the moment, our capacity and capability to deliver into those projects, so we have the opportunity to bid into the process, whereas in the past what we have seen is those decisions, in terms of buying the steel and where it comes from, often being taken before we get a look in. We want to move from less than 50% of British-made steel being used in Government-funded projects to much higher than that. That could provide, certainly, a boost to the steel sector, to local economies and to the wider UK economy as a whole.

Q207 **Alexander Stafford:** I just wanted to pick up on one more point about this. If this does not go as planned, to put it mildly, and there are widespread redundancies, what can the Government do to make sure the skillset is still maintained in the UK, so that, when business picks up, we still have that skill and it does not disappear?

Stephen Phipson: We have been talking to Alok Sharma, Secretary of State for Business, and I spoke to the Education Secretary again yesterday. We have been calling for what we call a national skills taskforce. As I said right at the beginning, the number one issue for this sector is around skills provision. We are seeing a lot of highly skilled people potentially at risk here in the sector, and there is definitely a need to redeploy those skills to where we have particular gaps in the skillsets in other parts of the industry. We do that on a regional basis. There are lots of regional schemes, but it is time that we convene those together and have a national effort on what we are doing with redeployment of skills in the country. That is important.

The second point on skills, which I again had a discussion about with the Education Secretary yesterday, is around apprentice starts. This is really important. One of the side effects here is that we are seeing a rapid fall-off in commitments to start apprenticeships this year; it is something like two-thirds down on its normal intake level. That will have a dramatic effect in years to come, and we need to think of quick ways to incentivise or support businesses to take on apprentices into the sector. We are just not feeding enough new skilled people into the sector at the moment. Those two things for us are really important at this point.

Q208 **Chair:** Alexander's question touched upon the environmental implications of any kind of recovery support from Government. Mike, it has been reported in the newspapers that your trade body has been calling for specific support for the automotive industry, with some support for the demand side to try to encourage customers to buy new vehicles. Some of the reports have been suggesting that you have been calling for diesel and petrol vehicles to be dealt with at the same level as electric vehicles, in terms of grants to customers. For those of us who want us to be able to move forward quickly to our net zero transition, that does not feel quite right, even though we understand the economic reasons for your suggesting that. I just wonder if you want to take this opportunity to provide some comments to the Committee on that.

Mike Hawes: The first thing to point out is we have to see what demand is like. We are only able to open showrooms from Monday. The initial degree of interest has been relatively good. The question is how sustainable that is going to be over the medium term, given the impact this has had not just on people's lives but on their livelihoods and consumer confidence.

We are saying that maybe we should look at ways of stimulating the economy and stimulating consumer spending, not just in automotive but more broadly. Specifically for automotive, our forecast is that there will probably be about a 30% drop in new car sales this year, and that flows through to used cars as well, which has a serious impact on jobs up the line, in terms of the manufacturing supply chain, and down the line in terms of retail. We want to try to avoid that, so it may be that we look to some sort of market stimulus measure. However, this would be focused on restart and would be time-limited. It is about getting factories open and sustaining the retail network.

You cannot suddenly shift an industry that, for 120 years, has produced internal combustion engines into electric vehicles and plug-in hybrids overnight. That is happening, but it will take time. What we are focused on at the moment is the economic impact, and that is how you support the economy and how you get the industry restarted. If you were just to put an incentive on, for instance, battery electric vehicles, last year that was 1.6% of the market, so if you double the incentive to £6,000 or £7,000, you would probably double or maybe even triple the sales. That is only 10,000. What is the impact of that on the total market? What will be the impact of that on manufacturing in the UK or even in Europe? It would be marginal, so what we are looking at at the moment is how you restart the sector itself.

The industry is investing in terms of this transition, and one of the problems we have in terms of having been in shutdown for two to three months is that the development programmes have also paused. Model introductions that were expected now have been pushed back, because you have not been able to do the testing, the certification and the development that you need to get this on the market.

Chair: The concern that people have is that, when you buy a new car, you buy it for quite a long time, so if we are encouraging purchase of diesel vehicles now, that is going to be with those consumers for some time to come.

Q209 **Ruth Jones:** My question is to Mr Stace. I need to declare an interest, as Newport is a steel-producing town. Llanwern is a very big thing for my constituents. I just wonder, in terms of going forward following Covid and following the easing of lockdown, do you think the Government are doing all they can in terms of their procurement powers? You touched earlier on the infrastructure projects. Are they doing all they can to ensure that we maintain a vibrant, developed steel industry in the UK?

Gareth Stace: Without being too harsh on the Government, no, they are not doing all they can. Since 2015-16, we have been working with the Government to change the mindset from a laissez-faire, "If steel produced in the UK is used in this project then so be it, but it does not really matter if it is not," to where we are now, where we understand the percentage of steel from the UK used in these projects and hopefully have a short look into the future in terms of pipeline.

Like I say, we have the opportunity here in the UK to be bold, where it just becomes the norm, as I said, rather than the exception that it is going to be steel from the UK. That enables us, as a sector, to look forward to the future market and to have certainty. Almost an extreme example would be that if there was a project that required a certain grade of steel that we do not make in the UK at the moment, if we as a sector had that forward look, in terms of the certainty of a longer-term market over a number of years, then I would hope that we could look to invest in that grade of steel and would then be able to deliver it to that project.

We have the opportunity now to not keep taking small steps forward, but actually, as we come out of this dreadful emergency, make a giant leap forward in terms of how the UK Government and how the UK population view how we spend taxpayers' money on national infrastructure projects. We have the ability to be really bold here as we come out of the EU and as we look to invest, within the UK economy, to get out of this dreadful emergency.

Chair: Thank you to our first panel of experts. Stephen, Mike, Paul and Gareth, thank you so much for your time.

Examination of witnesses

Witnesses: Gillian Cooper, Audrey Gallacher, Fintan Slye and Jonathan Brearley.

Q210 **Chair:** We are now moving on to the second panel, where we are talking to representatives from the energy industry. I call our witnesses to very briefly introduce themselves, and then we will go straight into questions.

Gillian Cooper: I am Gillian Cooper, and I am head of energy policy at Citizens Advice. We are a national charity that provides free, independent and confidential advice to millions of people a year. We are the statutory advocate and advice provider for energy consumers. We helped more than a million energy consumers find a way forward last year.

Fintan Slye: I am Fintan Slye. I am the executive director of the Electricity System Operator, which is an independent, legally separate part of the National Grid Group, and we operate the electricity system across Great Britain.

Jonathan Brearley: I am Jonathan Brearley, chief executive of Ofgem, the energy regulator for Britain.

Audrey Gallacher: I am the chief executive of Energy UK, which is the major trade association representing the generation suppliers and National Grid.

Q211 **Chair:** Thank you for those introductions. If I could just kick off the questions for today, Mr Slye, we noted your predictions about the drop in demand for electricity power during the Covid pandemic, and there was a prediction that demand would drop by between 4% and 20%, which is quite a big difference. How have you started to see that panning out, and is that still in the right space, in terms of falls in demand for power?

Fintan Slye: That is broadly what we have seen. At the moment we are seeing demand drops on average, during a weekday, of around 12% to 15%, so towards the high end of the information that you quoted, which was from the Summer Outlook that we published earlier on in the year. We have seen drops over the weekend and, in particular, bank holiday weekends, which dropped down to even lower levels—around 20% drops—on what we would have seen pre-Covid or what we would have expected pre-Covid.

Q212 **Chair:** What does that look like in terms of thinking forward to the winter? I am conscious, for example, that we had the unfortunate blackout last August. It must be difficult for you and your organisation to manage the different forms of generation against this changing demand, especially on the industrial side of consumption. Is there anything that we should be worrying about in particular from the winter perspective?

Fintan Slye: As we look forward to the winter, we expect that there will be sufficient security of supply margin. There is plenty of generation there at the moment. We are working with all of the generation companies and the network companies to ensure that they can programme and plan all of the essential maintenance that they need to do during the year. When the pandemic hit and we initially went into lockdown, all of those plans got stalled, and we have been working with them to replan all of that work to ensure that, as we go into the winter, the generation fleet and the network assets will all be sufficiently resilient to ensure that we can maintain the appropriate levels of reliability and security of supply through the winter period.

Q213 **Chair:** That is comforting, thank you. Mr Brearley, we have seen reports this morning or maybe yesterday about the specific £350 million fund you have had to set up at Ofgem for electricity and gas companies that are in financial distress. Evidently, that is in addition to the packages already put forward by Government for businesses generally. I wonder if you could just give us an insight into the scale of the problem. Is the £350 million more than you think the demand will be for smaller companies needing specific support, or do you think there is a risk that you might have more demand than you have put allocation into the pot?

Jonathan Brearley: Just to emphasise, since this crisis began we have been monitoring the finances of the supply companies very closely. We get weekly updates from them as to their financial situation and, as you can imagine, things change very fast and our perspectives change very fast.

What I am clear about with the data we have in front us today is that we are not seeing a systemic problem across the sector. We are not seeing some of the things we perhaps feared when the crisis first started. What we are seeing, a bit like some of the evidence in your last session suggested, is companies that are needing a little bit of breathing space to get through the current crisis and to get back to business as usual.

In a sense, what we have done with this measure is just level the playing field. There are a number of energy companies that can access the Government schemes you mentioned, and there are a number that cannot. What this really does is give a very time-limited delay to the costs that those companies face to make sure that they are able to manage through the period that is coming up.

In terms of demand, we do not yet know. Having talked to many of the companies, I suspect there are other forms of financing that are cheaper and more advantageous to them, but we will see. As the scheme unfolds, we have limited it to make sure this does not impact too severely on the network companies, but it is a way of giving breathing space to companies that cannot access other schemes.

Q214 **Chair:** Could you help us to understand? We know there is a £350 million pot. What does that mean in terms of the number of companies that you envisage are in distress, and what might that be in terms of the number of customers or the amount of power or gas that is being made available?

Jonathan Brearley: We need to compare different kinds of customers. There is a bigger change in the business sector, where businesses have done two things. They have stopped buying the power they planned to buy. Clearly, there will be businesses that struggle to pay their bills. In the household sector, we are seeing some leading indicators that show customers are under financial distress; for example, the number of direct debits that are being cancelled has risen somewhat.

What I am not seeing is something that means the financial health of the sector as a whole is being impacted right now. What I am seeing is some particular companies, partly based on their customer mix and partly based on the plans they have, getting a little bit of breathing space to get back to normal.

Q215 **Chair:** Audrey, Energy UK represents some of the major players in this space. I wonder if you could just build on what Mr Brearley talked about there, splitting it between industrial, commercial and domestic consumers.

Audrey Gallacher: We are definitely seeing much more acute problems in the non-domestic sector, because of some of the issues outlined in the previous panel, where manufacturing, hospitality and lots of other businesses have closed down. That will have an impact on their ability to pay bills, and we are definitely seeing that.

Picking up on the point around keeping the system in balance and the stuff Fintan told us, that has shown that the sector has worked well, as it always does, in terms of generators, networks, suppliers and the national grid keeping everything balanced, but that comes at a cost. Not only are we seeing issues around customers' inability to pay, for which the Ofgem scheme is providing some temporary relief for some suppliers, but there are other issues impacting the sector, which is increasing what we call non-commodity costs, so the balancing costs unforecast at the beginning of the year. As a result of that, we are seeing probably an extra £500 million coming into the system between May and August. We know the other policy costs are, again, impacted by a reduction in demand.

The other thing we are worried about is the longer term. Depending on what the anticipated recession might look like, what does that means for bad debt? Right now, companies are putting lots of measures in place to help out their customers, as they have committed to do and as they should do. We have seen payment holidays, reductions in direct debit levels and unpaid bills. That will all have to be repaid at some point. It is true that things were not as bad as originally anticipated, because the furlough scheme has helped massively, but what happens when we start to transition out of that?

There are lots of issues. There is the potential of bad debt and how we pick up the additional costs that this crisis has caused the industry. That is something that we will need to keep a close eye on.

Q216 **Chair:** Can you give us an idea of your assessment of the scale of the risk across the energy sector? You have the big six, then you have the challenger energy companies and then you have lots of other small companies providing different parts of the service. As we move out of this emergency phase, where we have CBILS and furlough, and start to transition, how comfortable are you about your members being able to comfortably get through that in order to continue to provide security of supply?

Audrey Gallacher: On the generation side, I am pretty confident. Fintan picked up that there will be a big challenge over the coming summer to ensure that the planned maintenance programmes are carried out to ensure security of supply for the winter. There has been an impact in terms of the supply chain. We know that the quarantine will not necessarily affect us; we have some exemptions on that around essential emergency works, so we should be able to do that. The supply chain has to be there. I am quite confident around generators, although they too will be impacted by some of the unforecast costs.

On the supply side, it is a bit more difficult. There were very immediate concerns early on, because we saw a big spike in non-payment and direct debit cancellations. That has really levelled out and is fine. It is now very much about trying to assess what the future might bring, understanding these risks and having some plans in place to address them. To be fair, hats off to Ofgem: they are definitely doing it. Likewise, the Government are listening to these concerns. Obviously, energy supply and security of supply are utterly fundamental to the whole economy. We are running ventilators in hospitals, so it is really important that this is taken seriously and I am glad to see that it definitely is.

Q217 **Chair:** Gillian Cooper, we have talked today about customers, primarily on the consumer side, not being able to pay direct debits or bills. Are you happy about the support that might be in place for consumers who genuinely are in those difficult circumstances and how we get the balance right between supporting them and supporting industry to make sure that all this stays stood up?

Gillian Cooper: We are a big supporter of the Government agreement with suppliers that has provided people with additional support during the crisis. We think suppliers have done a decent job in assisting customers who have reached out to them for help and support. We have some concerns around the big challenge on that, which is that we do not know what is happening with the people who have not yet reached out for any help and support. That is particularly the case because the next phase of the crisis will be quite long and difficult because of a recession. The recovery will be very slow for many people, and people will have built up debts during this period. It is really essential that people are aware of the help and support that is on offer from the sector.

Again, we need to be looking at how we make progress on delivering a more joined-up support offer for people, to help them recover from this crisis. It will be very challenging for many households.

Jonathan Brearley: One of the big things we have learned in this crisis is the value of close co-operation and information sharing. Citizens Advice and others have played a big role in making sure we can identify and chase down problems quickly. I hope that continues as we go into the next phase.

Chair: That is good to hear.

Q218 **Judith Cummins:** If lockdown restrictions were required over the winter, how serious an effect would that have on electricity demand and consumer bills? We have many workers who are working from home and absorbing the costs on businesses. I would appreciate your comments on that, Fintan.

Fintan Slye: We are acutely conscious of the impact of our actions, or of any increases in costs in the system, on consumers and, in particular, on vulnerable customers. Audrey has mentioned some of the additional costs that we are seeing during the summer to manage the unprecedented low levels of demand on the system.

From a consumer perspective, there is also some good news there, in that there are also some significant drops in wholesale energy prices, which, when taken overall, would balance out those increased costs, associated with balancing the system.

Obviously, people at home will be using more energy during the winter. They turn the lights on earlier and they turn the heat up. In addition, if they are still working from home, they are obviously using more energy. Even though the unit price may have dropped, the fact that they are using more energy will impact on their household bills. That is one of the things we need to be acutely conscious of. As I said, one of the key things is that, with the reduced levels of demand, we are seeing pretty significant decreases in wholesale energy prices. We would expect over time to see that flow through into the prices that consumers pay.

Q219 **Judith Cummins:** Are you confident, with the shifting of planned summer maintenance to winter and the demand being higher, that it will still be achieved properly while maintaining the security of supply?

Fintan Slye: We are continually working with the individual generating stations to make sure they get their planned maintenance done or scheduled in a co-ordinated way. At the moment, we are not seeing any indications that would give rise to either a concern about reliability of the overall generation fleet over the winter or a significant number of outages being pushed into the winter. Obviously, it is an evolving situation and we continue to monitor and work with them to ensure they get those outages done appropriately.

In addition, we are working with the network companies as well, because they get all of their network maintenance work done out in the field during the summer. We are working to make sure that all of the critical maintenance is done there as well. It is an evolving situation, and we continue to re-programme and replan as advice from the Government is updated and as we see the situation in the system change.

Q220 **Judith Cummins:** What would be the red flags to you in terms of doing that maintenance work in the winter? How would that be flagged up, and what would be the impact?

Fintan Slye: What you would start to see is either increased unreliability of generators due to an inability to do maintenance or them flagging that they were going to take significant outages during the winter period. As I say, neither of those have come to our attention yet.

In the coming period we will be publishing a review of last winter and then a consultation on this coming winter, and following that up with our Winter Outlook. Over the next few months, we will be providing regular information into the industry and the public domain around how we see the security of supply margin over the winter and any other risks that we see around reliability of supply. As Audrey pointed out earlier, the industry is working really well together to ensure that all of that essential maintenance is done and completed in time for the winter.

Q221 **Alan Brown:** Fintan, Audrey touched earlier on balancing costs. Media reports suggest that you have signed a contract with EDF to halve the output from Sizewell B over a period of four months at a cost of some £50 million. Is this correct?

Fintan Slye: As part of looking at how we effectively manage security of supply over the summer with the unprecedented drop in demand that I mentioned earlier, we have taken a number of actions and one of them is to enter into a contract with Sizewell around reducing the output of that station.

We looked across all of the things that we could possibly do, and all of the tools that were available to us, for what the most cost-effective mechanisms that we could put in place to ensure security of supply and to ensure that we have the ability to safely and securely manage the system over the summer period. One of those things was a reduction in the output of Sizewell. We have structured the contract in a way to make sure there are break clauses in it in the event that demand rises back up. As we exit lockdown, we hope that the recovery is pretty immediate and that the economy gets back to work. We have structured the contract such that, should that happen, there are break clauses in the contract.

Q222 **Alan Brown:** Obviously, you say it is cost-effective and you have had to look at a number of ideas. Your Summer Outlook outlined a number of potential actions that might need to be deployed, but that Summer Outlook did not include these types of bilateral contracts. What changed, and why was that not provided as an option at the outset?

Fintan Slye: The Summer Outlook, when it was published, did not go into the details of the specific actions that we would take. The Summer Outlook looked at a number of scenarios and talked about the fact that, in the more extreme scenarios with demand drops of about 20%, additional balancing actions would be required. This is a balancing service that we have put in place with EDF.

In parallel with that, we have also launched a completely new balancing service for embedded generation. We have signed up over 3 gigawatts of embedded generation into a new service that would enable us to reduce their output over periods of particularly low demand. We have also entered into a new trial using batteries flexibly across the day, both to charge and discharge at appropriate points. There are a number of actions that we have moved to put in place.

We engaged extensively with both Ofgem and BEIS as we went through this to make sure that we were completely transparent about the options that we were looking at and why they represented value for money for consumers.

Q223 **Alan Brown:** In 2015, the then chief executive of National Grid said that the idea of baseload is already outdated. Does this prove his point? Do we need to move away from a focus on new large power stations and concentrate on flexibility and the likes of batteries and storage, as you just touched on?

Fintan Slye: The issue is not so much about large power stations or baseload; it is about making sure that the mix of generation that we have available both delivers low-cost sustainable energy supply to the economy and to society but also delivers the flexibility and the services needed such that it can operate reliably. We are putting in place a number of initiatives to ensure that we can purchase things like inertia and stability so that we can manage the system with much more renewable generation. That is one of the core elements of transitioning the electricity system to be able to operate at really low levels of carbon intensity.

Q224 **Alan Brown:** Is your current procurement framework flexible enough in itself, or will we have to keep repeating the measures like what has happened at Sizewell B in the interim unless there is a change of the operating framework?

Fintan Slye: With the changing nature of the electricity system, we will continue to look at what the appropriate market structures are over time. The current framework allows us the flexibility to put in place the necessary services. For example, earlier this year we went out to tender and signed contracts with a number of providers to provide inertia on to the system. That will start to come on and be available from next year, and it will be built out in terms of the amount of inertia that it will provide over a number of years. The framework does have the flexibility to adapt to it.

We are seeing, though, over the coming years, with that transition to net zero, a very significant change in the makeup of the energy system, the energy mix and how it operates. That probably will, at some stage, require a look at the market mechanisms and how they work.

Jonathan Brearley: As the system evolves, we need to make sure that we have the right tools in place. One thing that this summer is showing us is the importance of things like storage and flexibility in the market to be able to respond to a system that is going to be very different in a few years' time. It is great news that we are getting more renewables on the system and that their costs are coming down, but we need to continue to think hard about how we manage the system and that we do so cost-effectively.

Q225 **Alexander Stafford:** This question is to the grid and is about the overall production rate. I am sure we have all seen that it has been a great period for renewable energy coming on to the grid during lockdown, with low carbon emissions. Do we expect this change to continue? I appreciate there is a lower demand for electricity and we have had so many days without coal. Will this good trend continue going forward?

Fintan Slye: Yes, absolutely. This trend is increasing. We are seeing large activity in terms of the construction of offshore wind and more solar coming on to the system. We see a healthy pipeline of battery product projects coming onstream. All of those would indicate that that transition of the energy system and its move to a more sustainable low-carbon system will continue as we go forward. One of the key ambitions for the Electricity System Operator is to transform how we think about operating the system such that, by 2025, we will have all of the tools, processes and services in place such that we can operate the grid at zero carbon, to the extent that that generation mix is available at that time. I would expect that the transition you are talking about will continue, and it is absolutely essential if we want to hit the net zero targets that the UK has set.

Q226 **Alexander Stafford:** You mentioned the word "ambition". It is great to hear about ambitions, but clearly there will be challenges and associated costs that go into this. Could you outline some of those, please?

Fintan Slye: You have picked up specifically on the ambition to be able to operate the grid at zero carbon by 2025. One of the great things about that ambition, in one way, is that it is directly aligned with making sure that we minimise cost to consumers. That is all about making sure that we can take onboard and use all of that renewable energy when it is available, so that we do not have to constrain or curtail any of that energy. For wind and solar in particular, when it is available—when the sun is shining and the wind is blowing—it is available at zero variable cost, and therefore making sure that you can maximise the use of that is directly aligned with making sure that energy, at the end of the day, is available to consumers at the lowest possible price.

Audrey Gallacher: I want to reinforce the points that Fintan has been making. The power sector has already been very successful in terms of decarbonisation over the last 10 years. We want to see that continue because, of course, we have the target of net zero by 2050. A lot of things are now coming forward to ensure that we can do it at the lowest possible cost, using things like onshore wind, which is one of the cheapest technologies.

We need a wide mix, and we have to balance it with security of supply and the question of affordability. We are getting there, but one of the reasons why it is so critically important is that it will underpin the decarbonisation of other sectors, particularly on heat and transport. It can also go a long way to help in the economic recovery that will likely be required as we come out of this crisis. It is really important that we can assess the policy framework and make sure that the right decisions are being made to deliver that future.

Jonathan Brearley: Coming back to the challenges, in a sense we could have two worlds. If we have a world where we are flexible and where we are storing our electricity, we will have a highly efficient system that is great in terms of cost and great in terms of climate change. The challenge is making sure that happens and that we do not end up in a world where we continue to add on system costs for Fintan to have to run the system or indeed networks to have to invest to build networks to support all of that. It is really important that we work together to get the right market framework to make the best of the thing that is coming. Ultimately, that will get to a great place on cost and on climate change.

Q227 **Alexander Stafford:** I want to ask Audrey a quick question. We have seen the lowering demand on battery power and electricity over this period, but has that lowering demand been felt across all generators and power stations, or are certain types of generators bearing the brunt of this? Is it decreasing evenly?

Audrey Gallacher: Fintan can probably give you more of the specifics. There is a merit order in terms of what generation output would be used first, so obviously it would be renewables, but we also need flexibility in the system, which is being provided by gas. There will be an impact, and there will be an impact as well around reduced wholesale prices, which is great for consumers but not so great for generators that have already sold contracts. Of course, we are in completely unprecedented times here. It has definitely been felt.

Q228 **Judith Cummins:** Are the Government's business support schemes for coronavirus sufficient to keep energy suppliers solvent and operational? What changes would the industry want to see to widen access to the schemes? What will be the impact for the industry if these changes are not made?

Audrey Gallacher: We have gone out and asked some of our members about access to these schemes. We have put some information together that we submitted to BEIS. We can certainly make sure we get that over to the Committee if that would be helpful.

In terms of the coronavirus corporate finance scheme that large companies can access, I am not sure whether any of them have actually accessed it, but it seems to be okay. For everybody else in the other schemes, it is a real challenge. I have information from 27 different companies of different sizes and different business models. Of them, 12 have been rejected. One had got it, one had got CBILS, and the rest were either thinking about it, did not need it or were not sure that they would be eligible.

There is a definite issue, and that is because of the characteristics of this sector. Supply has a low margin. In fact, right now it is very much a negative-margin business. It is asset-light and it has huge working capital requirements, because it collects on behalf of the whole sector. They carry all the bad debt risk because you cannot not pay the network companies. We have a fairly unique set of circumstances that are impacting this, and the feedback has been that, because of the rules around some of these, the banks just will not lend to them. Even a non-domestic supplier, which had never had any financial difficulties before, was told by its long-term lender that it would be unlikely to qualify for the schemes. That is why it is particularly important that Ofgem has taken the action that it has taken, which we think will be of some help.

However, as I mentioned earlier, there are more significant risks that we will just have to keep under review, or we will have to look at alternative mechanisms to try to support the industry throughout this period, to make sure customers are getting a good experience and that we are keeping the lights on.

Jonathan Brearley: We have a subset of companies that are eligible for that Government support but we clearly had a number that were not, as Audrey mentioned. The network charge scheme is really there to try to level the playing field somewhat. Equally, what we found over the last two to three months is that the data does change, and we are working very closely to understand the financial position of all suppliers week by week. Of course, we are thinking about what else might happen.

I think Audrey would agree with me that, when we first started this, there were deep concerns in the industry. We had some fairly frantic conversations about what was happening. Getting access to that information has allowed us to take a much more structured approach and to make sure we do this stage by stage. There is always a trade-off between providing support and not, and we need to make sure we get the balance right for customers.

Q229 **Mark Pawsey:** I want to follow up Judith's questions with some points about support for smaller suppliers or if suppliers fail. First, I have some questions for Jonathan Brearley. You heard the previous evidence session, and I hope you were as disturbed as I was to hear Gareth Stace of UK Steel remind us that electricity bills in this country are 50% higher than Germany, which gives our manufacturers a big challenge when they are competing.

I want to talk to you about industrial gas consumers. In your opening remarks, you acknowledged that the business sector had stopped buying power. There are many large users of gas that are continuing to pay large gas bills, despite not using gas, because of their daily standing charges. In 2008-09, after the financial crisis, a gas bill change was implemented so that industrial sites could reduce their bills. I gather that that has been a matter under discussion quite recently and that it went before the gas governance panel, which was split, and Ofgem had the final say, rejecting the introduction of a modification. Can you explain to us why that happened?

Jonathan Brearley: We rejected the specific modification simply because of the breadth and the structure of what was being proposed. We also said in our decision that we understand the issue and are prepared to work on what an exceptional case might be. We are continuing to engage with those industrial consumers and with the industry to specify the scale of the problem and to find out what might need to be done.

Q230 **Mark Pawsey:** With the greatest of respect, Mr Brearley, this has now affected businesses for 10 weeks. You heard our earlier evidence session about the challenges businesses face. Do you really think it is adequate to be thinking and talking about something at a time like this, when we have heard the very major challenges that UK businesses face?

Jonathan Brearley: We are working very closely with those industrial consumers, and we need to get this right. With any measure like this, there is always a trade-off, and bills can be picked up by others across the industrial and the domestic sector. We want something that is fit for purpose and that is linked to the coronavirus crisis. We want to make sure that we tackle the problem and target it appropriately, and that is what we are doing.

Q231 **Mark Pawsey:** Would you give me a deadline by which you would consider it acceptable for something to be in place for large industrial gas users?

Jonathan Brearley: This is complex. We are continuing to work with them. We are absolutely on this, and we will make sure we work with them.

Q232 **Mark Pawsey:** Thank you for that; that is on the record. I want to ask you about the supplier of last resort process, if a large supplier or several small suppliers were to fail. Under what circumstances would you consider implementing that regime?

Jonathan Brearley: The energy market, as with any market, does have companies that fail. We have seen about 10 cases of this over the last roughly two years. That is when we instigate our supplier of last resort process. As I say, we keep a very granular understanding of what is happening across the sector. When a company looks like it is at risk, we will work closely with it to prepare for the process of going into administration and us responding.

Q233 **Mark Pawsey:** Do you have a view of how many companies may be vulnerable at this time?

Jonathan Brearley: As I said before, I do not think there is a systemic problem across the industry. We always have a conversation with a number of suppliers, and we work with them to make sure they have the adequate systems and processes in place. We then take those customers, find a new supplier and transfer those customers to the new supplier. As you can imagine, in this crisis, we are of course preparing for a wide range of situations. We are well resourced and those systems are in place for us to make that change.

Q234 **Mark Pawsey:** May I ask the other witnesses whether they are happy that Ofgem are looking at this in the right way and are ready to step in?

Fintan Slye: I agree with everything Jonathan said. We are working closely with the Ofgem team around both the support scheme on network charges and also the modification proposed to one of the industry codes to address some of the issues around balancing costs that Audrey referred to earlier. There is constructive engagement going on around how to make sure that we effectively support the industry and reflect the underlying issues that are there and the financial strain that they are seeing.

Q235 **Mark Pawsey:** May I ask Audrey Gallacher and Gillian Cooper whether there is any way in which consumers might be disadvantaged over this period?

Audrey Gallacher: There are two issues here. There is one about the process itself, people and their credit balances being protected and the supply staying on. The other side of it, of course, is that any costs associated with a failure will be mutualised across the whole sector. If these companies have not paid their industry bills, all other consumers will pick up the tab. That is why it is particularly important that we ensure that we do not have schemes that are propping up businesses with unsustainable business models, and that Ofgem continues to do its job around who it allows into this market and the conduct of firms in this market, to make sure that we minimise that as much as possible, because it does not come at no cost; other customers have to pay for it, and that is what we want to avoid.

Q236 **Mark Pawsey:** Gillian Cooper, are you happy that Ofgem has its finger on the button here?

Gillian Cooper: It is an area where we already work very closely with Ofgem. We have had a number of supplier failures in recent years in this market, and one of the big indicators of a supplier failing is generally that its customer service starts to decline quite rapidly. That is an area where we are sharing intelligence with Ofgem on a near daily basis, if necessary. Ofgem's processes are fit for purpose at the moment. If we did see a number of suppliers all start to fail at once, that would obviously be a challenge for the regulator.

We would like to keep the costs of failure as low as possible, because we estimate that it has already cost consumers about £250 million in terms of suppliers that have failed in the last couple of years. If we did see a much larger company fail, there may be grounds to use the Government's special administration regime in order to step in and provide more protection to people. With the current arrangements, customers have fewer protections when it comes to being left in debt as a result of the failure. Ofgem does not have the same ability to take action against the administrators who will be chasing the customers for any money unpaid. There may be grounds, depending on the size of the supplier.

Q237 **Ruth Jones:** My question is about the Government's voluntary agreement with the energy companies. It appears to be widely welcomed but I wonder how well it is working in practice. Can I ask Audrey Gallacher first? What proportion of suppliers are taking proactive steps to communicate with their vulnerable consumers, and how are they actually doing this?

Audrey Gallacher: One of the good things that has come out of this is how quickly we identified what we thought the risks might be for customers. We immediately started speaking to Citizens Advice, Ofgem and BEIS around how we could mitigate those, which resulted in the set of principles that you have referred to. They have been working pretty well.

There is no doubt that there were issues in the early days as companies themselves dealt with the impact of coronavirus, whether that was in terms of moving call centres into people's living rooms or dealing with staff absence. That was a real challenge, so we have certainly seen the industry having to respond to some of the problems.

I am sure Gillian will keep me right on this, but I think we are, hopefully, back to business as usual, and now is the time to start moving out to a much more proactive approach. The original principles were very much about identifying vulnerable customers, making sure the support was there and helping people in financial difficulties as a result of Covid. Different companies are now transitioning out of that, and it is much more about being proactive, as you say.

There was probably a bit of concern in the early days about whether, if we sent a blanket email, letter or text message to all our customers, we would be inundated with calls. We wanted to use our limited resource to deal with the real emergencies. We are definitely past that now. Depending on where companies are on that journey, we are seeing that more and more, and it has to become much greater. Earlier on, one of the Committee asked about how we can cope with higher bills in the winter. We are already thinking about whether we should be looking at what a second wave of coronavirus might look like in the winter, the impact of that and how we deal with it. We are seeing people who have never had financial difficulties now really struggling to pay, and that is a big challenge. Can we help them around providing energy efficiency advice and ways to reduce their energy consumption or cut their bills?

There is also data. What this crisis has really shown is that smart meters, particularly for prepayment meter customers, have been an absolute godsend because you can work things remotely. One of the big challenges earlier on was around legacy prepayment meters and the ability to understand if people were going off supply. Any additional data is useful, whether it is through the insight from Citizens Advice or even DWP data; there has even been talk about trying to access the shielding list.

There is a lot of stuff happening. I could not say that all companies are doing it or that all our members are doing it, but companies are definitely on a journey as they transition out of that immediate response to make sure their operations and staff are working, looking at what needs to happen in the longer term and anticipating the problems that we are likely to face.

Q238 **Ruth Jones:** Can I ask Gillian Cooper and Jonathan Brearley whether that marries up with their experiences or with reports coming back from customers? Do they marry up with what Audrey has just said? How easy is it for customers to find out about the support that they can receive from those energy suppliers?

Gillian Cooper: Yes, that accords with what we have been seeing from people who are contacting us. Again, the people who are reaching out to their energy suppliers are getting the help and support they need. What we do have, though, is a gap in the people who are not aware that there is support on offer. We polled prepayment meter customers at the end of April, and only a third of them were aware that suppliers were offering this type of help and support.

As we move into the next phase of the crisis and start with the recovery, that will be a big challenge for the industry because, as Audrey said, we have a lot more people who are in financial difficulty and who have fallen behind on their bills. Suppliers will need to have really sensitive conversations with people to help them set up affordable repayment plans. That will be a big challenge for an industry that is already struggling with capacity problems because of the Covid crisis. Again, there are opportunities for suppliers to help people perhaps move to cheaper tariffs or provide energy efficiency advice. These are all things that they need to be thinking about.

One other thing that I would emphasise is that suppliers, when they are able to restart meter installations, should also be thinking about how they can get more smart prepayment meters in the homes of people who have legacy prepayment meters at the moment. As Audrey mentioned, there is a lot more flexibility to provide support to people when they have a smart prepayment meter. If we go into a second wave in the run-up to winter, it is really essential that we have as many smart prepayment meters installed as possible, just to give the ability to support people in the coming winter months.

Jonathan Brearley: I agree with the assessment that has been laid out. I would just emphasise a couple of things. Some of the problems we have had through this process have been exacerbated by coronavirus but were there before. Ofgem, for some time, has been concerned about self-disconnection by PPM customers. We are coming forward with a series of proposals around that, and I will mention those in a second.

This is not over. We are going through a process of change in the economy where we will see a large number of customers in financial distress. It is incumbent on the industry to treat those customers carefully and with compassion. Equally, it is incumbent upon the industry to get its operations back up to a level so that the rest of us can begin to get the things we want sorted out. Public patience has been there, but it will not last forever. If the industry does that and gets trust from across the board with the public, there will be space for the conversation that we all want to have around how this industry helps with a green recovery. You will not get that case if you do not have public support behind you, and that means the retail sector, in particular, treading very carefully over the next six months or a year.

On self-disconnection, we are coming forward with a series of final proposals in the coming weeks, where we will be making sure that those PPM customers are better looked after and that companies are better able to identify who might be in trouble.

Q239 **Paul Howell:** A number of the points I was going to cover have already been gone through, but I have one final point on the same sort of subject to Gillian. A lot of the support to customers has been in the form of loans or deferred payments. What sort of potential impact do you think this will have in the longer term when, hopefully, the crisis ends?

Gillian Cooper: Yes, that will be a big challenge for both the energy sector and for other essential services sectors. Citizens Advice has been very keen to stress to the Government that there should not be a cliff edge in terms of withdrawal of the income support schemes, because that would have ramifications for the energy sector and for other sectors, because people will not have the recovery in income if there is a significant recession.

In terms of where we go next with this, again, we need to be looking at what a joined-up support offer looks like for people. That covers everything from better data sharing to providing more targeted support to people who have lost income as a result of coronavirus and who have wound up in debt. Depending on the scale of the debt that we wind up with and the impact on households, we may need to look at more significant measures, including whether there needs to be more widespread debt write-offs. We need to consider a range of options at this moment as we see how the crisis plays out and the impact on people.

Q240 **Paul Howell:** Do you think that energy suppliers are doing enough to take account of consumers' ability to pay as we go forward?

Gillian Cooper: They will need to. At this moment, we have been in crisis mode, so suppliers have acted to pause debt repayment and have provided customers who are on prepayment with discretionary credit to help them stay on supply. That aspect of it has worked quite well but we are moving to probably the more challenging phase, when people will need more longer-term support to help them continue to pay their energy bills and to continue to pay back any debts that they might have built up during this process. Suppliers will need to have very difficult conversations with customers to ensure that they can set up the right type of repayment arrangements for them and, again, they will need to work with them to see if they can help them reduce their bills overall by switching to a cheaper tariff, by providing energy efficiency advice or by helping them access other debt support schemes.

Q241 **Chair:** Audrey, does what we have just heard from Gillian apply across the different types of sectors you represent—electricity, heat and gas? Is there uniform good news across everyone, or are some parts better than others?

Audrey Gallacher: We have definitely seen issues around payment and there are quite well-established mechanisms in place. There are some licence requirements to ensure that the ability to pay is taken into account. On the heat sector, the ADE has picked up the principles that were established for the gas and electricity sector and has voluntarily introduced them for heat customers. We are seeing lots of good practice being spread to ensure that customers are protected.

I wanted to pick up on Gillian’s point. As a sector, you would love to help everybody and give everybody payment holidays and additional credit, and lots of that has been given, but that is finite. There is no war chest here. Energy suppliers are not making any profit and, as already mentioned, they are on the hook for ensuring that all the industry costs are collected and paid. At some point we will need to have a really candid discussion about how we ensure that we help people.

The Government’s furlough scheme has been brilliant in minimising the impact but when they go, and if jobs do not come back and we see this recession, we will all have to discuss how we help people. What is the role of the welfare state against companies? I can give a commitment that energy companies will be doing their bit and ensuring that they are treating customers sympathetically and properly, but if anybody thinks there is money down the back of the couch to pay for all this, there is not. We need to get to grips with that because this could be a whole lot bigger than we had ever anticipated. It is right that the industry should be standing up and doing its bit, but it is much wider than that.

Q242 **Charlotte Nichols:** My question is for Energy UK and National Grid. How has the crisis affected your ability and your members’ ability to carry out planned outages and maintenance of existing infrastructure and construction of new energy plants? If these effects continue, what impacts could this have for the sector throughout the winter and beyond, particularly in terms of the security of supply across the energy mix this winter and of Government targets for wind and new nuclear such as Hinkley Point C and Sizewell C?

Fintan Slye: What we have seen in terms of impact on maintenance and outages is that, when the lockdown started towards the end of March, work out on the networks and on site at generators stopped at that point. As guidance has become clearer and restrictions have started to be lifted, companies are starting to re-plan and re-programme all of that work. We are continuing to work with them to make sure that that work gets done before the winter period to ensure there is no impact on security of supply over the winter period.

We are looking to manage two effects. First, we do not want to see large outages deferred into the winter period where we might need that capacity. Secondly, we do not want the reliability of plant generation or network plant to suffer because some critical maintenance was not done during the summer period. We continue to work quite actively with both the generation and the network companies to make sure that happens.

In terms of construction of new plants, we have spoken to some of the companies developing offshore wind in particular, which have said that it is starting to bite in terms of potential delays to construction. In particular, the 14-day quarantine period could potentially impact their ability to progress projects, but they are all working through it.

From the ESO point of view, we have put in place an awful lot of measures around our control rooms and critical staff to make sure we increase and maintain the resilience of those key functions. The rest of our staff are office-based people who are now all working from home. At ESO, we do not have people out in the field trying to work through that. Audrey could speak better to the issues experienced by the generation and network companies.

Audrey Gallacher: There are well-established contingency plans in place, as you would expect, given the nature of what we do. They have been tested to the maximum here, and they cover all the things that you would expect about split shifts onsite. The people who are operating the control rooms in the plants have been unsung heroes in this crisis, and they have done really well, thankfully.

In terms of where we go, as I said earlier, we should be okay on plant maintenance. We still have to ensure that the supply chain is there. The Government listened earlier about giving the sector critical worker status through the work we have done with the National Infrastructure Commission. There is also access to testing—not before the NHS, but there is access to testing. We have done really well on things like PPE and the safer working guidance. There are plans in place to get everybody back to work. I mentioned have mentioned the potential issues with transport and schools opening, and we are affected like everybody else.

Where we do potentially have a problem is on construction. You have to get that balance right. We are fighting and trying to contain a global pandemic, so you have to take all the actions, but it will have an impact and you need to understand what those are. Right now, construction will be delayed, and we therefore hope to see a pragmatic approach around some of the contractual arrangements on that, because those things should not trump public health. There are concerns, and the biggest concern is how long it will go on for. If it is just a couple of weeks, that is fine, but quite a lot of the work that goes on, particularly on offshore sites, can only be done in the summer, so you are potentially going to lose a year. We are having lots of discussions around what the quarantine arrangements might be and how we can satisfy them and still continue with construction. We very much need to keep it under review.

Q243 **Ruth Jones:** Fintan, how significant do you think the impact of the crisis will be on the delivery of the long-term targets for the sector and the net zero agenda?

Fintan Slye: Hopefully it will not impact on the long-term delivery of net zero. A key part of it will be how we come back out of lockdown and how the economy recovers. Do we do that in a sustainable way and look, as a society and as an economy, to take actions that promote and maybe accelerate the transition towards net zero? It is a hugely challenging target anyway, and we knew that before coronavirus. The opportunity coming out of this is to make sure, as the economy builds back up and as we think about the actions we take or promote, that we do it in a way that builds towards delivering the net zero target.

Chair: Thank you to all of our guests today for spending time with us. We heard in the first session on manufacturing how there are differences of impact across different sectors but a shared enthusiasm to retain and build skills as we look towards future growth. There are some potential opportunities around trade, decarbonisation and digitisation, which I know are topics that this Committee has an interest in, and we look forward to speaking to colleagues about those in the future.

On our energy sector panel, it was great to see a united front across all of our witnesses today with some good news about collaboration and continued investment in terms of flexible and renewable generation and our net zero targets. We want to keep an eye on the issues around corporate insolvencies, if that does come up in the coming months, and how we best ensure security of supply and protection for consumers.

Thank you to all of my colleagues on the Committee for your questions. Thank you to our panellists.