

Business, Energy and Industrial Strategy Committee

Oral evidence: Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill, HC 517

Tuesday 19 December 2017

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[Watch the meeting](#)

Members present: Rachel Reeves (Chair); Vernon Coaker; Drew Hendry; Stephen Kerr; Peter Kyle; Rachel Maclean; Mark Pawsey; Antoinette Sandbach.

Questions 121 - 333

Witnesses

[I](#): Michael Lewis, Chief Executive Officer, E.ON UK; Sarwjit Sambhi, Managing Director UK Home, Centrica; Ed Kamm, Chief Commercial Officer, First Utility; Stephen Forbes, Chief Commercial Officer, SSE.

[II](#): Peter Haigh, Managing Director, Bristol Energy; David Bird, Chief Executive Officer, Co-op Energy; Hayden Wood, Co-founder, Bulb; Patrick New, Managing Director, Ecotricity.

Examination of witnesses

Witnesses: Michael Lewis, Sarwjit Sambhi, Ed Kamm and Stephen Forbes.

Chair: Thank you very much to the four of you for coming to give evidence to our Select Committee today on the pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill inquiry. We have about an hour for this session, so we will get started. We have a number of questions. We are going to start with Peter Kyle.

Q121 **Peter Kyle:** Thank you and good morning. I am going to jump straight in. If you three could just clarify one thing, I know that your three companies are suspicious and sometimes against the idea in principle of a price cap. Perhaps we can start with SSE and Stephen. Could you just tell us why you think that customers who are getting the same product delivered in the same way should pay sometimes £200 different a year?

Stephen Forbes: We all want the same thing. We want a healthy, competitive market that customers trust. We believe that competition is the best way of serving that, rather than price regulation through a cap, if we are going to deliver sustainable benefits for customers.

Q122 **Peter Kyle:** You would not argue that competition is working for vulnerable customers and for people on standard variable tariffs.

Stephen Forbes: The CMA, which is an expert in this field, did an investigation of over two and a half years. It concluded that the market is generally functioning well, and that a market-wide cap would be disproportionate and would likely undermine the competitive process. We think that will result in worse outcomes for customers, and we do not believe there is any new evidence to challenge that. In fact, competition has increased since then: we now have 60 suppliers competing in the market; 5 million customers who have switched energy supplier this year to date, which is a 14% increase; the independent suppliers have 18% market share now; and prices on average are below what they were four years ago in the sector.

Q123 **Peter Kyle:** Ofgem data shows that on average, since 2012, all standard variable tariffs were considerably more expensive than other tariffs. How can you say competition is working when patently it is not working on SVTs?

Stephen Forbes: I think competition is working. We are seeing increased switching; as I said, it is 14% up year on year. That is a good example of a competitive market. We have 60 competitors working very hard to win new customers and retain the customers that we have. Differentials play an important role in the sector. The basic tenet of competition is that customers need incentives to switch and move supplier.

Q124 **Peter Kyle:** Michael, if you accept the principle that differentials are



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important for the market, why is it vulnerable people who are playing a disproportionate role in that differential? Vulnerable customers are not switching. They are paying more; they are providing the differential. You are profiting on the back of vulnerable customers.

Michael Lewis: It is very important to clarify our position in relation to a price cap. We are opposed to a general price cap on the whole market. We are not opposed to the prepayment meter price cap, or indeed the vulnerable customer price cap for Warm Home Discount. Once you have taken the vulnerable customers out of the market and protected them, it is a question of engagement. The issue is not one of price. Stephen has already given the data there. The average electricity and gas price has fallen over the last five years. The prices in the UK are lower than the EU average for gas and electricity, so customers can switch and get a much better price, as you rightly said.

The problem we have is one of engagement. We have done a lot of things to engage with our standard variable tariff customers. In fact, in the last year, our standard variable tariff customer base has fallen by 10% because of the work we have done on engagement. We announced in September that we are going to proactively take people off the SVT starting next year as the SMETS2 rollout starts, because we think the world will change with smart meters.

Then it is about engaging with customers and getting them on to the right tariff for them. One really important point: customers want value for money, but they do not all want the same thing. Some customers want a no-frills online tariff; other customers want the ability to have payment by cheque and various other things.

Q125 **Peter Kyle:** Is the key here that a customer should not have to fight to get a decent price? To give you an example, let us go to the other extreme. The Secretary of State gave evidence here. He says he has not changed tariff, because he is too busy to change tariff. Should he be punished for that, whereby the person who is living next door to the Secretary of State should pay less, because they are not as busy as him, for the same product delivered in the same way to the same house in the same street?

Michael Lewis: I would only say I do not think it is as difficult and complex as you are saying.

Q126 **Chair:** It is the Secretary of State saying it, not Peter.

Michael Lewis: Fair enough. You will know that you can either switch suppliers or switch by staying with the same supplier. Then it is much easier: you just call them, and they will move you on to another tariff.

Q127 **Peter Kyle:** Let us stick to the principle. Do you think it is right that the person living next to the Secretary of State, who has the time, should pay sometimes £200 less for the same product delivered in the same way to the same property in the same street?



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Michael Lewis: It is right that somebody who engages with the market and searches for the product that is right for them gets a better deal than the person who does not. That is what the market is all about: getting that engagement. That is why we announced that we are taking people off the SVT, so we can engage with them when they get a smart meter.

Q128 **Peter Kyle:** Am I right in assuming that you would believe the Government are wrong to believe that the onus should be on you as a company to run more efficiently and effectively, in order to give better tariffs and a more equal pricing structure?

Ed Kamm: The onus should be on suppliers. It should be on suppliers to run our businesses well. It should be on suppliers to hedge, to give our customers that certainty. It should be on suppliers to engage their customers, and that is what makes us different: we actively engage our customers. If you look at any of the standard variable tariff data that is out there, we have a fraction of our customers on the standard variable tariff compared to the big six, because we actively engage our customers to choose a deal that is right for them. We will communicate to our customers at least 13 times a year if we have a better tariff for them. That is the fundamental difference: we do not end up with customers stuck on the SVT for three-plus years, as you have with the big six.

Q129 **Peter Kyle:** Finally, to Centrica, Ofgem is basically saying that it is a two-tiered market here. It is not one fully functional market; there are two markets operating. That is the way that your company and the big six have structured your profit modelling. That is correct, is it not? You cannot argue against that.

Sarwjit Sambhi: I do not think it is correct. In terms of the question as to why differences in the market exist, I agree that, in the actual raw products of gas and electricity, it is homogeneous and the same for everybody. But there are different services provided on top. At the lower end of the market, there are differences. There are suppliers that do not have a contact centre, and therefore the only way of contacting that company is online. There are companies that do not offer prepayment meters, and that has a cost difference. There are companies that do not offer smart meters, and that has a cost difference. In addition, we have exemptions for smaller suppliers, which amount to about £40. If you add it all up, it accounts for a big part of the difference that we have seen in the market, but not all of it.

Q130 **Peter Kyle:** Surely the market is a split market: there are engaged customers and there are disengaged customers. You profit from the disengaged customers. You do not make much money from the engaged customers. It is as simple as that.

Sarwjit Sambhi: That is the issue that was identified by the CMA. The CMA identified that the issue is the engagement of customers who, by and large, have been on the standard variable tariff for a long time. Last time I gave evidence at this Committee, I said that was the issue the



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industry should be focused on. It is why we have said we are contacting all our standard variable tariff customers, to show them there are alternatives. We will do that again. Also, on 20 November, we said that we would end the standard variable tariff for new customers.

Q131 **Peter Kyle:** This is the nub of it, though, is it not, Stephen? You feel that people who are disengaged customers, whether they are vulnerable, lazy or rich, are ripe for the picking. It is as simple as that.

Stephen Forbes: I do not think that is true. On average, the industry makes 5% profit across the board, and that is the same as the VAT on a bill. That is reasonable.

Q132 **Peter Kyle:** You are saying across the board; my question was not about across the board. You are making a disproportionate amount of profit from disengaged customers compared to engaged customers. I am focusing on the disengaged customers.

Stephen Forbes: Some customers are on SVT because they want to be on SVT. Some customers choose to be on that product. Some customers choose to be on longer-term fixed-rate tariffs. Some customers choose to select the products they are on. Yes, there are customers who have been on SVT for a period of time.

Q133 **Chair:** Could I just follow up on a couple of the answers to Peter Kyle's questions? Stephen, you said that the CMA says the market generally works well. I am not sure if that is the conclusion the CMA reached. The CMA said that there was customer detriment of £14 billion a year, and the customers who are experiencing the detriment are those on standard variable tariffs, including the 82% of your customers who are on standard variable tariffs. Have you looked at your customer satisfaction among customers on standard variable tariffs?

Stephen Forbes: Yes. We are very proud of the customer service record we have. In fact, in 11 out of the last 12 Citizens Advice customer service statistics, we have been top. We think that we give our customers a great service.

Q134 **Chair:** What about customers on standard variable tariffs?

Stephen Forbes: Those customers are included within those.

Q135 **Chair:** Do you know how they compare with customers who are on better tariffs?

Stephen Forbes: I do not have that information to hand.

Q136 **Chair:** Would that be information you are able get to us?

Stephen Forbes: I can certainly look at that.

Q137 **Chair:** Thank you. We can get back to you with the questions, so you do not need to note them down. You said that your average profit margin was 5%. What profits are you making from customers on standard



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variable tariffs compared to customers on other rates?

Stephen Forbes: As you pointed out, we have a large majority of our customers on SVT. On average, we are making 5.9% profit over the last five years. That is the margin we have made on our customers, and we think that is a fair return for the work we do.

Q138 **Chair:** Sorry, that was not the question. My question was: what profit margin are you making on customers on standard variable tariffs compared with other customers?

Stephen Forbes: The margin would be slightly more than that, but I do not have the actual information in front of me today. It is cost effective. We do not price products below cost. It is a competitive market, and we have to work really hard to win and retain customers.

Q139 **Chair:** Would you be able to get back to us with the profit margin on customers on standard variable tariffs?

Stephen Forbes: It is obviously a competitive market, and I certainly would not be able to share that sort of information with my competitors.

Q140 **Chair:** Could you share it on a confidential basis with the Committee?

Stephen Forbes: I would need to consider that.

Q141 **Rachel Maclean:** Have you all attempted to quantify or model the impact of a price cap on your business revenue and profits. If so, what is it?

Sarwjit Sambhi: We have not been able to run a number of scenarios that accurately model the impact of a cap. That is simply because there is not sufficient detail on how the cap will be constructed and the level it will be set at. When the CMA published the methodology for the prepay price cap, we could very quickly estimate the impact, and we have published that. At the end of 2016, we said that the impact in 2017 of the prepay price cap, which would apply for three-quarters of the year, was about £50 million. That is just covering, for us, about 1.4 million customers on prepay. I mention that because it is only when we have the level of detail comparable with what the CMA published for the prepay price cap that we can estimate the impact of a market-wide price cap.

Q142 **Rachel Maclean:** Is that the same for you, Mr Lewis?

Michael Lewis: Yes. Until we know exactly what the price cap looks like, we cannot model it, and there are various ways in which it could be done; there are relative and absolute caps, and different levels. We will obviously look again when Ofgem publishes its initial consultation paper, and look at what the impact might be.

Stephen Forbes: Similar to my colleagues here, it depends on the level that the cap is set at and the methodology used. We believe that the prepayment cap did not take into account costs associated with supplying energy to those customers. If the cap is designed in a way that takes that



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into account, that would have a very different impact on our business than otherwise.

Q143 Rachel Maclean: Mr Kamm, obviously your company is in favour of the price cap. Is that because, under your business model, you will be making more profits and increasing your market share?

Ed Kamm: No. We would still have an impact under the price cap, because we have a standard variable: 18% of our customer base is on the standard variable, although the period they are on it can be measured in months, not years and decades like my panel members here today. I cannot answer for them. The impact on them must be massive, hence the reasons they are putting forth and the actions they are putting together.

Q144 Rachel Maclean: Such as raising prices recently after the Prime Minister announced this potential legislation. Is that what you are referring to?

Ed Kamm: I am just referring to their level of profitability and the percentage of customers they have on the SVT, which is over 60%, and over 60% of those have been on it for three-plus years. It has to have an impact; otherwise they would not be putting forth the defences and obstacles they are putting in the way. It still has an impact on us, but we are encouraged about the other potential impact it has around the market, and that will be where there is some potential upside. The question is whether it offsets the downside for us as a business.

Q145 Rachel Maclean: Your SVTs are as expensive as the big sixes', are they not? You have mentioned that they are not on there for years and years, but you have 3%, which is 24,000 customers. That is still quite a large number, is it not?

Ed Kamm: Sure.

Q146 Rachel Maclean: What are you doing to encourage them to switch?

Ed Kamm: We actively market to our customer base. We bill our customers monthly, which is unique among the panel members here today. On each of those monthly bills, we include our supplier cheapest tariff. We market to our customers outside of the bills. We are constantly giving new information about the better tariffs that we have available to get them to move off, hence the reason that we are at 3% of our customer base rather than 35% of our customer base.

Q147 Rachel Maclean: Are you able to give any assessment of what you think would be the upside for your business if this price cap came in? What would it mean for your market share and your profits?

Ed Kamm: Profit would be a straight hit in the initial implementation of a price cap. However, it depends on how the market changes. If the big six cannot offer these loss-leading tariffs that we believe they offer from time to time, that means we will have a better chance of winning their SVT customers when they do come to market. At the same time, one of the



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things we are concerned about is, if you are on the safeguard tariff or the price cap tariff, whether that means as a consumer you are less likely to engage in the market, and your churn rates and switching rates go down. That is a concern. We do not yet know how all these variables play out, but we are a net positive on the price cap.

Q148 **Chair:** I am just interested, Ed Kamm. You communicate 13 times a year, do you say, with customers who are on standard variable tariffs?

Ed Kamm: Yes.

Q149 **Chair:** During the course of a year, what proportion of customers who are going on to standard variable tariffs do you manage to move on to other tariffs?

Ed Kamm: Given that 18% of my customer base is on a standard variable tariff, that suggests 82% of my customers.

Q150 **Chair:** If, say, this month, 15,000 of your customers move on to SVTs, within a year, do you think you get 82% off them?

Ed Kamm: Yes, absolutely.

Q151 **Chair:** Can I just ask the other three companies how many times a year you communicate with customers who are on standard variable tariffs to offer them a better rate?

Stephen Forbes: As a minimum, four times a year, and then for some customers, it would be a lot more than that.

Q152 **Chair:** What proportion of your customers are on standard variable tariffs?

Stephen Forbes: The Ofgem metric said 72%.

Q153 **Chair:** What proportion have been on them for more than three years?

Stephen Forbes: 39%.

Q154 **Chair:** I think Ofgem says 44%.

Stephen Forbes: It is 39% of our overall customer base at today's date.

Q155 **Chair:** For more than three years, okay. Michael Lewis, how many times do you communicate?

Michael Lewis: Four times a year as a base, and then some of them more depending on what issues arise. We have 61% on SVT, and that has fallen from 68%.

Q156 **Chair:** What proportion have been on it for more than three years?

Michael Lewis: I would have to look that data up.

Q157 **Chair:** 38%, Ofgem says.

Michael Lewis: Actually, it has fallen since that date. It is now at 37%.



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Q158 **Chair:** Okay, a fall of 1%. For Centrica, how many times a year do you communicate with customers who are on standard variable tariffs?

Sarwjit Sambhi: At least six times a year.

Q159 **Chair:** What proportion of your customers are on standard variable tariffs?

Sarwjit Sambhi: We have 65% of the overall base, including customers on prepay, on the standard variable tariff. About two-thirds of those have been with us longer than three years.

Q160 **Chair:** 43% of them have been on their standard variable tariffs for more than three years.

Sarwjit Sambhi: Correct.

Q161 **Chair:** Why do you not do what First Utility does? Why do you not communicate 13 times a year? Maybe then you would not have in excess of a third of your customers on standard variable tariffs for three years.

Sarwjit Sambhi: We would like to encourage all our customers to move to monthly billing. That would give us the opportunity to contact customers and offer them an alternative.

Q162 **Chair:** Is anyone stopping you contacting your customers 13 times a year?

Sarwjit Sambhi: No. We have said we are going to end the standard variable tariff.

Q163 **Chair:** No, that is not what you are doing. You are ending standard variable tariffs for new customers. Standard variable tariffs have not ended for the 69% of customers, from the Ofgem numbers, that we have just spoken about. Please be very careful with your words and your language.

Sarwjit Sambhi: For those customers, we have said that, as well as contacting them through the normal billing cycle that we have for our customers, we will contact them at least twice a year to say, "You are on the standard variable tariff. There are alternatives to the standard variable tariff". We will do that as many times as possible.

Q164 **Chair:** No one is stopping you from doing what First Utility is doing. You say, "We would like to", et cetera. There is no one stopping you from contacting your customers 13 times a year. I would suggest the reason you do not do that is because you are quite happy to have 69% of your customers on standard variable tariffs, because that is where you make your profits. Is that not the case?

Sarwjit Sambhi: I do not think it is.

Q165 **Chair:** Why are you not contacting your customers 13 times a year?



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Sarwjit Sambhi: First, I do not think customers would appreciate being contacted on separate occasions 13 times. The reason that First Utility contacts its customers 13 times a year is because it has monthly billing for all its customers. If we could have monthly billing for all our customers, we would be contacting them every month. That is why we want to accelerate and push hard on the implementation of the smart meter programme, because then we can.

Q166 **Chair:** I do not see why your billing system as it is today, however that works, stops you from contacting your customers as often as you would like. Mr Kamm, have you ever had customers complain? What percentage of your customers complain about the frequency of your contact?

Ed Kamm: We do not get many complaints at all about the frequency of billing. If anything, it acts as an engagement tool so customers know exactly where they stand and exactly their fixed direct debit will be.

Q167 **Chair:** Thank you. Mr Sambhi, what is stopping you from contacting your customers on a regular basis, like First Utility and other energy suppliers, to encourage them to move off the very expensive standard variable tariffs?

Sarwjit Sambhi: In terms of the points of contact with a customer through a required communication, when we bill them and when we have an alternative offer, that adds up to a standard variable tariff customer on quarterly billing at least six times a year. That is not the only route to contact our customers. We have launched a rewards programme for all our standard variable tariff customers. Any customer who signs up to rewards—so far, since the launch, it is 700,000 customers, and we want all our customers to be on rewards—is contacted every month.

Q168 **Chair:** Why do you not do that for all customers, then?

Sarwjit Sambhi: They are being contacted every month through the rewards programme.

Q169 **Chair:** You just said 700,000 were on the rewards programme. You have 7 million customers, so that is 10% of your customers.

Sarwjit Sambhi: Every customer is contacted to join the rewards programme. They have to actively sign up.

Q170 **Chair:** Why make customers go through a hoop? Why make them join a rewards programme before you contact them more frequently? Why not just contact your customers on a monthly basis to encourage them to come off the expensive standard variable tariffs? Why not just do that?

Sarwjit Sambhi: They are contacted every month. It is one click to sign up to rewards.

Q171 **Chair:** No, they are not. I have asked you already to be careful with your language. I think we have just agreed that 10% of your customers are contacted on a monthly basis: the 700,000 who have signed up to



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rewards. That is not the question I am asking you. I am asking why you are not contacting all 7 million of your customers, or all the customers who are on standard variable tariffs, on a monthly basis to encourage them to come off those tariffs and on to more competitive rates. Would you like to answer that question?

Sarwjit Sambhi: We think contacting them at least six times a year, and through the rewards programme, is enough to incentivise customers to switch away from the standard variable tariffs.

Q172 **Chair:** It is clearly not, with all respect, because you have 69% of your customers on standard variable tariffs. We will move on. Can I ask you, Mr Lewis and Mr Forbes, why you are not contacting your customers on a more frequent basis to encourage them to come off these expensive standard variable tariffs, when you have more competitive rates out there that would be suitable for them?

Michael Lewis: We are doing more than that. As I already said, in the first quarter of next year, when we will start rolling out SMETS2 meters, we are going to take customers off the SVT. We are not just going to contact them and tell them about other products; we are going to say, "As a minimum, we are going to put you on to a fixed-term one-year contract that is priced below the SVT". We want to have a conversation with them about other tariffs.

Q173 **Chair:** Just to be clear about that, you have your standard variable tariff. At the moment, how much is that on average per year?

Michael Lewis: £1,123.

Q174 **Chair:** How much is the new default tariff they will be going on to?

Michael Lewis: We have not decided yet, because it depends on what happens in the wholesale market. It will be a fixed-price deal, and we will have to look at how the cost of energy is at the time we move the customers.

Q175 **Chair:** What is the best acquisition rate you have at the moment?

Michael Lewis: It is 9% below that number, so it is £1,020.

Q176 **Chair:** Can you guarantee that your new default tariff will be lower than standard variable tariffs?

Michael Lewis: Yes.

Q177 **Chair:** Why will it not be as low as the acquisition rate in the market, or will it be?

Michael Lewis: Honestly, I cannot say at the moment. That acquisition tariff changes periodically as the wholesale market changes.

Q178 **Chair:** Yes, sure, but your default tariff rate could match the acquisition rate.



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Michael Lewis: It may do. It depends where the wholesale market is at the time. Our acquisition tariff—which, by the way, is not just an acquisition tariff; it is open to all customers at any time—is a no-frills online tariff called “Go Online”. Not all customers necessarily want that. We have to balance what the customers want with which tariff is available.

Q179 **Chair:** That was an answer to a previous question: that some customers do not want to be on direct debit. But why should some customers who are on direct debit and getting the same product be paying 9% more than other customers for the same rate?

Michael Lewis: Do you mean the SVT versus the acquisition tariff? A point I have already made is that it is not just an acquisition tariff; it is available to all customers. As part of the engagement we will do with them, we aim to get more people off the SVT. That is a default that we will make it lower than the SVT, but of course we will give customers the option to go on to every tariff we have at the time. It might be the Go Online tariff, which some customers may want, the clean energy tariff, electric vehicle tariff, or cap and track tariff. We introduced a number of tariffs in the last few months in preparation for this movement of people off the standard variable tariff.

Q180 **Chair:** Mr Forbes, finally, why do you not contact your customers more frequently?

Stephen Forbes: As I said, we currently contact them four times a year as a minimum. That is in line with our billing cycles and is for all customers. Like some of my panel members here, we have a rewards scheme, and we contact some of those customers 50 times a year or every week. We think, from a customer perspective, customers need to choose the level of engagement they want with us, but we are more than happy to do some research with our customers to establish whether they want to be contacted every month or every quarter.

Q181 **Antoinette Sandbach:** Effectively, your billing cycle is the required information that the regulator made you publish on your bill to warn people that there was a cheaper tariff. Is that how you are notifying them, Mr Forbes?

Stephen Forbes: That is some of the communication. We write other letters and emails to our customers, and communicate with them via our website. There are a number of different things.

Q182 **Antoinette Sandbach:** You have 82% of your customers on the standard variable tariff. Why is it that such a high proportion of your customers are on the standard variable tariff, unlike Centrica, which has only 44% or 39%?

Stephen Forbes: What we said is 39% of our customers have been on that tariff for more than three years.



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Q183 **Antoinette Sandbach:** Yes, and 82% are on the standard variable tariff. That is what Ofgem found.

Stephen Forbes: It is currently 72%, and part of that is history. That was the main product we sold for many years.

Q184 **Antoinette Sandbach:** Competition is not working, is it, Mr Forbes? It has not worked, even with the requirement of you to publish on your bills that there are cheaper tariffs available. It is not working, is it, if 82% of your customers are on a standard variable tariff?

Stephen Forbes: We have said that 72% of our current customers are on SVT, and there is some history behind that. We have more recently started offering fixed-term tariffs, and that has meant a shift towards those. We are having fewer customers on SVT. As part of that, one of the challenges we have is that, at the end of that fixed-term period, customers default back on to SVT, so there is this self-perpetuating issue.

Q185 **Antoinette Sandbach:** Can I just interrupt you? You said from April next year that you are not going to automatically roll over.

Stephen Forbes: That is correct.

Q186 **Antoinette Sandbach:** How many customers is that going to address? How many customers will that mean will not automatically roll over?

Stephen Forbes: At the moment, I think we have got roughly 700,000 customers on fixed-term tariffs.

Q187 **Antoinette Sandbach:** That is less than half the number of people you have had on standard variable tariff for three years or more.

Stephen Forbes: That is correct, but some customers like SVT. Some customers like having the flexibility.

Q188 **Antoinette Sandbach:** We know from First Utility that only 18% of their customers like SVT. I accept from you that some may.

Stephen Forbes: Some round the table here will have mortgages on variable rates and some will have fixed-term mortgages.

Q189 **Antoinette Sandbach:** Do you have a call centre?

Stephen Forbes: Yes, we do have a call centre.

Q190 **Antoinette Sandbach:** How many times a year do you call the 1.5 million of your customers who have been on the standard variable tariff for three years or more?

Stephen Forbes: I do not have that information. I do not know that off the top of my head.

Q191 **Antoinette Sandbach:** Could you write to the Committee and give us that information, please?

Stephen Forbes: Yes.



Q192 **Antoinette Sandbach:** Have you done an analysis to see whether there are a disproportionate amount of women or older people stuck on your standard variable tariff?

Stephen Forbes: Can I just answer the previous question first? We recognise that there is public, media, and political pressure, challenge and debate around the role of the SVT going forward. We recognise it is a potential issue and it is unpopular. We have listened, and we are committed to changing. We recognise we have more customers than others have on SVT, but we have made a voluntary announcement last week. We have said—

Q193 **Antoinette Sandbach:** I am sorry to interrupt, but you are here to answer my questions, and not to deliver your PR blurb. You knew that the CMA was doing an inquiry into your market. You knew how many customers you had on standard variable tariffs. Why has it taken this Parliament acting to impose a price cap to get you to take action about your customers?

Stephen Forbes: We think our SVT is at a fair price, and we want to engage with Ofgem and this Committee to make sure that we help develop the market in a way that is good for customers.

Q194 **Antoinette Sandbach:** Your standing charge per day on your quarterly on-demand paper bills is 27.41p. On your fixed tariff, it is the same as that for the quarterly on demand. But there are substantial differences in terms of what customers pay on SVTs. I am concerned about the fact that you have not acted for three years with 1.5 million of your customers. That is nearly half of them, is it not? How many customers do you have?

Stephen Forbes: We currently have just shy of 4 million customers.

Q195 **Antoinette Sandbach:** Just under half of your customers have been on this.

Stephen Forbes: 39% have been on it for longer than three years.

Q196 **Antoinette Sandbach:** I was asking you whether you have looked at your customer database to find out how many of those 1.4 million customers are either elderly or women?

Stephen Forbes: We have some information that would record that on our systems, but I would not know it. I do not think we have the specifics; we do not have the dates of birth for all our customers. With families, it depends whose name the bill is in and whether it is a man or a woman. It is not easy data to find.

Q197 **Antoinette Sandbach:** You can easily check if the bill is in the name of a man or a woman. You have that information easily to hand.

Stephen Forbes: I am sure we could.

Q198 **Antoinette Sandbach:** It is just that I am quite struck by the panel. We



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have four men here. I know, Mr Forbes, that SSE has published its gender pay gap. Are you able to tell us what the gender pay gap in your company is?

Stephen Forbes: It is not something that I am familiar with.

Q199 **Antoinette Sandbach:** Let me tell you. It is a 19.4% difference between men and women; 32% of the men and 12% of the women get bonuses. When we are looking at your competitors, I am going to praise Centrica, because your pay differential is less than 1% between the men and women you employ. I am wondering, Mr Forbes, whether your company has looked at how it treats its female customers, and whether there is a disproportionate amount of female customers or older customers on these standard variable tariffs. Are you prepared to write, again in confidence, to the Committee, to let us know what proportion of women are the lead bill-payer in the SVT category?

Stephen Forbes: If we have that data, I would be more than happy to share it. Just to be clear, we pay people of different sexes the same amount of money. The reason we have a differential like that is because the history of our group means that we have 4,000 people out in our networks business repairing cables and wires, and those people are on different salary scales.

Q200 **Antoinette Sandbach:** I am sorry. The pay gap looks at the same people doing the same job.

Stephen Forbes: I do not think that is correct.

Q201 **Antoinette Sandbach:** You can correct that if I am wrong.

Q202 **Chair:** I would be interested to know the gender pay gap for E.ON and First Utility. Have you published it yet?

Michael Lewis: Yes. It is 12%.

Ed Kamm: We have not published ours yet.

Q203 **Chair:** Will you be publishing it by the end of April?

Ed Kamm: Yes.

Q204 **Chair:** I am looking forward to seeing that. A 19.4% gender pay gap seems exceptionally high, and higher than your competitors, Stephen Forbes.

Stephen Forbes: I think it is the shape of the SSE group and the service, given that we are also in wholesale power station networks, which means that we have a very large proportion of male workforce.

Q205 **Chair:** Just because you have more men working somewhere does not mean you need to pay them higher.

Stephen Forbes: On a comparable basis, men and women are paid the same amount for the same jobs in our organisation.



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Q206 **Chair:** I think you will find that I am speaking. It has been 47 years since the Equal Pay Act, and a 19.4% gender pay gap at SSE is pretty poor. Would you agree with that?

Stephen Forbes: We are always working to try to improve things, but I am not an expert in this particular area, so we can share information with you after the hearing.

Q207 **Chair:** We look forward to seeing that.

Q208 **Stephen Kerr:** My question is for Mr Lewis. You have 3.3 million customers.

Michael Lewis: We have 3.9 million customers.

Q209 **Stephen Kerr:** I am using the Ofgem numbers. Ofgem says you have 3.3 million customers, 68% of whom—2.3 million—are on SVTs, and 1.2 million of your customers have been on SVTs for over three years. You announced in September that, in 2018, you are going to stop rolling automatically.

Michael Lewis: It is more than that. We will stop rolling automatically, but we are also going to actively move people off the SVT when we install a SMETS2 meter. That rollout will take place next year. The idea is that, when we talk to a customer to install a smart meter, we have a conversation about what the right tariff for them is. We want to move to a much more personalised, engaged relationship with our customer. To be very clear, I started in this job eight months ago. It was very clear to me that we had to change the relationship with our customers and move away from the SVT model, and that is precisely what we are doing.

Q210 **Stephen Kerr:** You have 1 million customers who are on tariffs other than SVT, but they have to have a smart meter for you not to roll them on to SVTs.

Michael Lewis: No. They can choose to go on to any of our other tariffs at any time, first.

Q211 **Stephen Kerr:** With or without a smart meter?

Michael Lewis: Yes, regardless of whether they have a smart meter. Second, we will stop rolling people on to the SVT and continue on the equivalent product they were already on. We will not default people back on to the SVT, regardless of whether they have a smart meter. We will proactively take people off the SVT when we put a smart meter in, because that is the right time to build relationships with customers.

Q212 **Stephen Kerr:** What about customers who do not want a smart meter? I know that might be something that sounds incredible to you, but some people will not want a smart meter. What will happen to them?

Michael Lewis: At some point, I believe that everyone will have a smart meter, because it makes so much sense. It is a surprise to me that customers do not a smart meter, because I cannot understand why you



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would not want to know how much energy you are consuming and have an accurate bill all the time.

Q213 **Stephen Kerr:** There are such customers. It is a matter of free will, is it not? What happens to customers who exercise their free will?

Michael Lewis: We will not proactively move them off the SVT. As I said before, we will not roll them on to the SVT when they come to the end of a fixed-term contract, and we will always have our product open to them at any time. That will be an ever diminishing number of people.

Q214 **Stephen Kerr:** We have heard descriptions of the sorts of customers who are on SVTs today. If they do not want a smart meter, they will stay on SVTs.

Michael Lewis: They will not necessarily stay on an SVT. It depends. We are engaging with them in other ways. We had a tear-off slip communication to our vulnerable SVT customers last year. We basically sent them a letter with a tear-off slip asking, "What is the right tariff for you?" We had a very high response rate of 32%, which for direct mail is very good, and we moved people off the SVT. Our SVT numbers have come down from 68% in April to 61% now, so we are doing other things. This is another one of those things, because, as I said, when you install a smart meter, it is a great opportunity to talk to customers about how they use energy, to help them use it in a better way, and to get them on to the right tariff for them.

Q215 **Stephen Kerr:** I am still not sure I would feel satisfied that those customers who do not want a smart meter are not going to be disadvantaged in this dialogue. Is your company doing anything else to reach out to your SVT customers and encourage them to change? You mentioned the tear-off slip.

Michael Lewis: That was one specific initiative we did earlier this year. We are also introducing new tariffs. As I said, in the last few months we have introduced a clean energy tariff and a cap and track tariff, which means that the price is capped but can come down if wholesale prices go down.

Q216 **Stephen Kerr:** It is the engagement, really.

Michael Lewis: Precisely. By having more products, better products, and products that appeal to different customers, we believe we can build better engagement. It is a constant struggle. That is what we are doing. It is our obligation to engage customers, and that is what we are doing.

Q217 **Stephen Kerr:** Let me talk a little more widely about smart meters and the potential of smart meters. You have enthusiasm, and quite a few of us have enthusiasm, for what smart meters can do to transform the marketplace. Do you think that smart meters will eventually mean that we do not need a price cap?

Michael Lewis: Absolutely, yes.



Q218 **Stephen Kerr:** Why?

Michael Lewis: They will transform the way customers use energy. We have just installed our millionth SMETS1 meter and we are moving into SMETS2 next year. We find that, when we install a smart meter, the net promoter score as we call it—how much a customer appreciates the service we provide—goes up significantly, because they get much better transparency on how much energy they are using and how they are using it. We can provide much more targeted advice on which devices use the most energy, and give them advice on how to reduce their energy consumption. You start to get into a dialogue with them.

Q219 **Stephen Kerr:** Do you expect to see an increase in switching?

Michael Lewis: I would not necessarily say you would see an increase in switching. I would hope that we develop a much more intimate relationship with customers and give them a tariff and associated products that are right for them, for example smart thermostats like Tado, which we are marketing at the moment, and other devices like solar PV and battery. I know that is at the top end of the market, but we are looking at other devices as well. The idea is to create a personalised energy offer to help people consume energy in the way they want to consume it.

Q220 **Stephen Kerr:** Does it make your company more efficient to operate? In other words, will there be cost savings because you will no longer have to have the infrastructure for physical meter readings?

Michael Lewis: Yes, indeed.

Q221 **Stephen Kerr:** Will that be reflected in a reduction in retail prices?

Michael Lewis: Over time, yes, of course.

Q222 **Stephen Kerr:** It will?

Michael Lewis: Of course.

Q223 **Stephen Kerr:** Let me ask the other panellists about the potential for smart meters, if you can make your replies quite brief. I expect you all to agree that there is the potential to transform the market. What impact will it have on customer behaviour?

Sarwjit Sambhi: We have rolled out 4.5 million smart meters now, so we have a lot of data and feedback from customers on how they are using smart meters. On average, each customer with a smart meter is saving between £30 and £40.

Q224 **Stephen Kerr:** How many did you say you had rolled out?

Sarwjit Sambhi: 4.5 million.

Q225 **Stephen Kerr:** How many of those customers have switched since you rolled out the smart meter to them? I have to confess an interest here; I am one of them.



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Sarwjit Sambhi: In terms of the smart meter customers who have switched, it is about 12% versus 17%. It reflects the fact that, in terms of the use of a smart meter to save energy and time, because there are no meter reads, it has a positive impact on customers. In terms of what it will do to the market, when all smart meters are interoperable—we are only months away from that point—it should increase switching in the market. That should be good for competition.

Q226 **Stephen Kerr:** Does it make Centrica more efficient as a business to run?

Sarwjit Sambhi: Yes, it does.

Q227 **Stephen Kerr:** Will you be passing those savings on to customers in decreased retail prices?

Sarwjit Sambhi: Over time, absolutely. Remember, while the roll out is happening, there is a cost to us of about £250 million a year.

Q228 **Stephen Kerr:** I am going to go to Stephen at SSE with the same questions. What do smart meters do in terms of customer switching in your business?

Stephen Forbes: It is slightly less for a customer with a smart meter than our standard switching rates. Our customers are more engaged; they understand what their energy usage is and it enables them to have better information to help them switch.

Q229 **Stephen Kerr:** Do you know how many of your smart meter customers have switched since they had smart meters installed?

Stephen Forbes: I do not have the data to hand, but I can certainly provide that. We have installed about 800,000 smart meters.

Q230 **Stephen Kerr:** In terms of business model, will you become a more efficient company? Will you be passing on price reductions to customers?

Stephen Forbes: Yes. Right at the moment, there is a cost associated with installing smart meters. Over time, we would expect costs to come down, and we will be sharing that with the customer.

Ed Kamm: I have a slightly divergent view. We have talked about the tale of two markets; Mr Kyle mentioned that earlier. We very fundamentally believe that there are two markets, one for engaged consumers and one for disengaged consumers. Smart meters help engaged consumers engage even more, and they will take advantage of that. My concern is that they allow disengaged consumers to disengage even more: they do not have to read the meter each month or at whatever frequency another supplier asked them for the reads. It is another way for them to disengage.

My concern is that it will continue the tale of two markets, even though it is a good technology and the right technology. We would not accept on our mobile phones not knowing how many texts and how much data we



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have, but we seem to accept that in energy. It should be a net positive, but there is a watch-out: does it help the disengaged become even more disengaged?

Q231 **Stephen Kerr:** Does the real time meter reading lead to real time billing? Does your monthly bill reflect the read?

Ed Kamm: Our monthly bill reflects the read.

Sarwjit Sambhi: For those that have smart meters, yes.

Q232 **Chair:** Can I just ask all four of you to supply two additional pieces of information? I would like to know what the customer switching rate is for customers on smart meters compared with those who are not. I would also like to know the proportion of customers on smart meters who are on standard variable tariffs with your company compared with those who are not. Is that something that you will be able to supply?

Michael Lewis: Yes. There is a problem with smart meters at the moment.

Q233 **Chair:** I know, about switching, yes.

Michael Lewis: It may dampen switching at the moment.

Q234 **Chair:** We would like to know that. Before I move on, you are moving customers who are going on to smart meters from standard variable tariffs to a better rate. If it is good enough for customers who are moving on to smart meters, why is it not good enough for all your customers who are on standard variable tariffs?

Michael Lewis: The whole point is to engage with customers. We want to have a conversation with them and say to them, "What is the right tariff for you?" We have various tariffs offering different things, from green energy, through to electric vehicle tariffs, through to very cheap and basic online tariffs. They do not all want the same thing; that is the point. The whole point is to engage with them, find out the best tariff for them and put them on to it. That is how we develop a more intimate relationship with them. Having a smart meter enables them to engage better with the market. That is the philosophy behind it.

Q235 **Chair:** Would there be any detriment to the consumer from moving them from a standard variable tariff to your best rate, for new customers or for customers who are switching? Would there be any detriment at all to a consumer from doing that?

Michael Lewis: It depends what the customer wants, and I cannot answer that. I would have to talk to them.

Q236 **Chair:** You are default moving your customers who are going on to smart meters from standard variable tariffs to another rate. You are not asking them what they want to be moving to.



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Michael Lewis: We are. We have a conversation with them first. At the most basic, we will move them on to a tariff off the SVT. We will have a conversation and say, "These are the tariffs"—

Q237 **Chair:** If they do not engage in that conversation, do you still move them?

Michael Lewis: We will advise them of the different tariffs we have, and we will tell them, "If you choose not to take one of these, we will move you on to another tariff, because we want to get you off the SVT".

Q238 **Chair:** I will ask you again. If it is good enough for customers who are going on to smart meters, why is that service not good enough for all your customers who are on standard variable tariffs?

Michael Lewis: Because we want to use it as a tool for engaging customers when they get a smart meter.

Q239 **Chair:** You are moving the customers who are not engaging but are going on to smart meters to a different tariff. Why is that not good enough for all your customers?

Michael Lewis: Because we want to have a conversation with them when we install a smart meter.

Q240 **Chair:** If they do not want to have a conversation with you and they go on to a smart meter, you move them anyway, but if do not go on to a smart meter, they stay on the more expensive rate.

Michael Lewis: Yes, but we will move customers on to smart meters. Over the next three to four years, we expect to get the vast majority of our customers on to a smart meter. That is the whole point of tying them together: so that we gradually move all our customers to the right tariff for them.

Q241 **Chair:** Do you think that a sign of a successful market is customers paying a competitive price for their product, or customers being engaged? Which one is the sign of a market that works: engagement, or customers on competitive rates? Not just in energy but in all markets, which is the sign of a competitive market?

Michael Lewis: It is both, because an engaged customer will get a competitive rate, or they will get a product that is the right one for them, which may be more expensive, but may be something that they want, for example because they have an electric vehicle and want an EV tariff.

Q242 **Chair:** Is engagement not a means to an end rather than an end in itself? A customer engages to get a good rate. You want customers being on competitive rates, not necessarily engaged customers.

Michael Lewis: It is engaging to get on the right rate for them: their preference, their choice, whichever tariff they want. As I said, we have several tariffs with different characteristics, and different customers do not all want the same thing.



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Q243 **Chair:** But, if they are going on to a smart meter, if they do not engage, you will still be moving them.

Michael Lewis: We will.

Q244 **Vernon Coaker:** You can see from the questioning from the Chair, and a little while ago from other members of the Committee, the nub of the issue here. I am addressing my remark to Mr Sambhi, but it really speaks to the way the whole market operates. Let us just remind ourselves of the facts with respect to Centrica, which most people would still see as British Gas. You are the largest supplier of both fuels to the energy market. According to Ofgem—it may vary a little by your own figures—you have 7 million customers. Of those, 69% are on the standard variable tariff; of those, 3 million for more than three years.

Other members have questioned the other suppliers. Using that as an example, you can see why people say, “What on earth is going on when that number of people, for that length of time, have been paying more than they could have done?” I know that Centrica has announced those seven steps. Why would anybody think that is going to make the difference and move significant numbers of people off that standard variable tariff on to a better deal? How is that going to work, not only for new customers, which as the Chair pointed out is the specific offer, but for existing customers? How is that going to make a real difference?

Sarwjit Sambhi: Going back to the previous point, the CMA said that the issue is engagement. I completely agree: engagement should result in customers being on the most competitive products for that supplier or in the market. That is why we are saying that engaging the customer base is the route to getting customers on to competitive tariffs. It is one view. We are trying to increase engagement.

Q245 **Vernon Coaker:** Have you not been doing that for the last three years?

Sarwjit Sambhi: We would say that we have not done enough for the last three years. After the CMA findings, we all had to look in the mirror and say, “What is it that we have not been doing with respect to engagement?” We have tried to up our game. We can do a lot more. Perhaps the answer is that we should be contacting our customers every month. I will certainly look at whether the frequency should be increased. That is what we are focused on as an alternative to the price cap.

Q246 **Vernon Coaker:** Has your company—British Gas, Centrica—set a target for those 3 million who have been on standard variable tariffs for over three years? Have you put a timescale to that, or is it an aspirational thing within your seven steps?

Sarwjit Sambhi: We have not set a target.

Vernon Coaker: You have not set a target.

Sarwjit Sambhi: No. We have said that we want to publish the data on the number of customers on SVT on a frequent basis. I am happy to be



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challenged on how frequent that is. We want to demonstrate that that number is coming down and coming down fast.

Q247 **Vernon Coaker:** You graciously said in answer to the Chair that you would take it back to your company about contacting customers more times. Can I suggest that the public need to have some way of judging whether what you are doing is successful? In most cases, people would set a target or some way of measuring whether what they are doing is having the desired impact. For the 3 million people who have been paying more than they should for over three years, personally—I do not know what the rest of the Committee thinks—I think it would be a good idea to say, “Our company thinks that we should eliminate that in whatever”, and give a broader figure for moving people on standard variable tariffs on to a better deal. Does Ofgem not suggest mandatory targets?

Sarwjit Sambhi: Actually, it does not.

Q248 **Vernon Coaker:** Is it not suggesting that? It might be one way forward.

Sarwjit Sambhi: We have advocated that the mandatory target is to end the standard variable tariff for the whole market. We would be supportive of saying that, by a certain date, all customers have to be off the standard variable tariff.

Q249 **Vernon Coaker:** You would support Ofgem saying to the whole market that standard variable tariffs should end in two years or a year.

Sarwjit Sambhi: Yes. We have said that publicly.

Q250 **Vernon Coaker:** What would be the impact on your profit margins of moving everybody from standard variable tariffs, where the profit margin is greater, on to a fixed-term deal? Have you made any assessment of the impact on your profits if you moved them on to a cheaper deal? No doubt it would impact on the profits of others. What would the impact on profit be?

Sarwjit Sambhi: Engagement will result in more competitive offers. We think that will mean, overall, the cheapest offer in the market. We have accepted that it would mean that overall our profitability would be lower. We have not made an assessment of how much lower, because that is difficult to calculate.

Q251 **Chair:** I am not asking you to tell us this; I recognise it is confidential. Centrica knows what the profit margin is for customers on a fixed tariff, and you know what the profit margin is for customers on standard variable tariffs. I would be flabbergasted if you did not know what impact it would have on your profits, in answer to Vernon’s question.

Sarwjit Sambhi: It depends on the pace at which—

Q252 **Chair:** Vernon’s question was pretty straightforward. If all your customers who are on standard variable tariffs were instead on your fixed tariff, what impact would that have on your profits?



Sarwjit Sambhi: That is one scenario.

Q253 **Chair:** That is the scenario that Mr Coaker asked about. Do you know the answer to that?

Sarwjit Sambhi: It is not a scenario where that is the target we think we might be able to achieve, because it is dependent on the rate at which we can get customers off the standard variable tariff.

Q254 **Chair:** Nobody asked you whether that was something you were trying to achieve, or whether it was a likely scenario. Mr Coaker just asked you whether you have looked at what impact it would have on your profits if the 7 million or 69% of your customers who were on standard variable tariffs were now on your fixed tariff. Is that something that Centrica has calculated?

Q255 **Chair:** Is that something that Centrica has calculated?

Sarwjit Sambhi: If that is the scenario you would like us to present to the Committee, I am happy to share that on a confidential basis.

Chair: Yes. Could all four of the companies in front of us today, on a confidential basis, supply us with that information?

Q256 **Vernon Coaker:** That would be really helpful. Moving on to a further question, one of the things that suppliers have objected to is the lack of a right of appeal re the way Ofgem will set the cap, although it is obliged to consult with you. Not just to you, Mr Sambhi, but to the others: is it not enough for it to consult with you about what the cap should be—it is the regulator—and then come forward with how it thinks it should operate and what it thinks it should be?

Stephen Forbes: Whatever the Government decide to do, we will work constructively with you, with Ofgem and with any other stakeholders, so that we understand the impacts of the cap. We think there will be a negative detriment for customers and we want to minimise that, so we will work constructively to make sure that that is minimised.

Michael Lewis: An appeal mechanism is just a good matter of administrative law. There should be an appeal against a decision of a regulator.

Q257 **Vernon Coaker:** You are fine with Ofgem consulting with you and then deciding.

Michael Lewis: There should be a formal appeal mechanism. At the moment, all we have is judicial review. That is just good practice.

Q258 **Vernon Coaker:** Is that because you do not think Ofgem will come forward with the right—

Michael Lewis: No, not necessarily. It is good practice to have an appeal mechanism when a regulator is making a critical decision.



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Ed Kamm: We are not passionate either way. We think it is right to have an appeal mechanism generally across business, but we do not have a strong opinion one way or another.

Sarwjit Sambhi: The appeal mechanism is solely on appeal against how the cap is set and the level of it. To be clear, it is an appeal right that all key stakeholders should have: consumer groups and suppliers. The analogy I would use is that, recently, an appeal was made on network charges that resulted in £100 million given back to customers. It is an appeal right that already exists in this sector and other sectors. All we are asking is that it is included in how the Bill is implemented.

Q259 **Mark Pawsey:** I am interested in the relationship between wholesale costs and retail prices, and the speed with which you, as suppliers, pass on changes to your customers. Can you tell us to what extent retail prices mirror fluctuations in wholesale and network costs, and how frequently you change your prices?

Sarwjit Sambhi: The important things to note in the bill are two parts: the wholesale price of gas and electricity—

Q260 **Mark Pawsey:** I am not interested in the Bill. Sorry, you mean the bill that you provide your customers.

Sarwjit Sambhi: Yes. There are two important moving parts: the actual commodity costs; then the non-commodity costs, which include transmission and distribution and energy-policy costs. The most volatile is the commodity price, and each company has a different hedging strategy for those costs. For us, we keep the prices under constant review.

Q261 **Mark Pawsey:** How often would you change prices on average in a year?

Sarwjit Sambhi: We do not have a set—

Q262 **Mark Pawsey:** How many times did you change prices in the last 12 months?

Sarwjit Sambhi: In the last 12 months, once.

Q263 **Mark Pawsey:** You put your electricity prices up by 12.5% and you claimed that a large part of that was due to green taxes. Is that right?

Sarwjit Sambhi: Due to energy-policy costs overall.

Q264 **Mark Pawsey:** To green taxes.

Sarwjit Sambhi: Energy-policy costs overall, the biggest part of which was the renewables obligation.

Q265 **Mark Pawsey:** In those 12 months, what happened to wholesale costs?

Sarwjit Sambhi: For gas and power prices, they came down, but you cannot—



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Q266 **Mark Pawsey:** They came down and you put your prices up by 12.5%.

Sarwjit Sambhi: You are cherry-picking the data. If we look back to 2013, we decreased our gas prices on average by about 5%, reflecting the sharp drop in wholesale gas prices. The increase in electricity retail prices is as a result of the higher policy costs since 2014.

Q267 **Mark Pawsey:** The wholesale price fell and you put your prices up by 12.5%. Mr Kamm, what did you do?

Ed Kamm: In 2017, we put our prices up, on 1 May. I believe it was 9.7%. We put them up.

Q268 **Mark Pawsey:** Despite the fall in wholesale prices.

Ed Kamm: Wholesale, at that point, had not fallen. How we buy for our variable tariff is different; we buy energy for our variable tariff very differently than for our fixed tariffs. Based on that, the wholesale cost had gone up and the non-wholesale cost had gone up.

Q269 **Mark Pawsey:** Mr Lewis, what did E.ON do?

Michael Lewis: In the last four years, we have reduced our prices twice and increased them once. We increased them in April of this year by 8.8%, and the main drivers for that were not just the environmental costs or the policy costs, but the network costs as well, to reflect more investment.

Q270 **Mark Pawsey:** But wholesale costs fell.

Michael Lewis: The overall retail cost has also fallen over the last five years. It is now 4% below the level it was, in real terms, in 2012.

Stephen Forbes: In the last four years, we have also done two reductions and one increase, and we take all the different costs into consideration when we are setting our prices.

Q271 **Mark Pawsey:** When you effect a price change, is it administered equally across all tariffs? Do the engaged customers on these rather nicer tariffs get a better outcome of a price change than those who are on standard variable tariffs?

Michael Lewis: No, it works differently. We have products in the market: fixed-price, one-year-duration products, for example Go Online. That product changes frequently, not for the customer who has signed up, because it is fixed when he signed up.

Q272 **Mark Pawsey:** Let us park the fixed tariff on one side and perhaps deal with the others.

Michael Lewis: Most of the tariffs are fixed but they are not SVTs, so they will change in response to the wholesale market almost on a weekly basis, and we will change our price position.

Q273 **Mark Pawsey:** May I ask the same question to other suppliers?



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Ed Kamm: That is how it works in the market. The fixed tariffs that our customers can now sign up to will more quickly reflect the changes, but they will also reflect the period of the fixed tariff, whereas the variable tariff will be slower to recognise changes up or down because it is generally purchased in a different way.

Q274 **Mark Pawsey:** We had already learnt that those on standard variable tariffs get a less good deal than others. Do they get the same deal in respect of price changes? Could you each just give me a yes commitment, if you are saying that there is no detriment in terms of price changes between those on a standard variable tariff and other tariffs?

Ed Kamm: In all due respect, I do not think it is as simple as a yes or no question. If you are on a fixed tariff that is in a fixed-term period, you do not change the pricing. Arguably, they get a better outcome because we have already locked in their energy for that. We already knew what the network was supposed to be and the obligations were supposed to be for the term of that contract. When their contract comes up, they can go to market and take another fixed tariff.

Q275 **Mark Pawsey:** I understand that but, over the longer term, could you all give us an assurance that those on standard variable tariffs are not at any disadvantage to those on other tariffs when it comes to fluctuations in prices? Are you able to say that, Mr Forbes?

Stephen Forbes: As Ed said, the standard variable tariff changes in line with all the costs, and there are different hedging policies associated with that. Fixed-term tariffs are much more point-of-time price points. At the end of that period, the customers will go on to the SVT rate or they can choose to move to another tariff.

Q276 **Mark Pawsey:** I understand that, but I am looking over the long term and trying to establish whether there is any disadvantage to somebody being on a standard variable tariff when it comes to price changes.

Ed Kamm: Not when it comes to price changes. It is the fact that they have overpaid by £200 or £300 a year for that for three-plus years.

Q277 **Mark Pawsey:** Could we conclude that those on standard variable tariffs are at a disadvantage compared to others when it comes to price changes?

Ed Kamm: In my view, yes.

Q278 **Mark Pawsey:** That is fine. Let us leave it there. In respect of the price cap, we have had some evidence in submissions that Ofgem should review the level on a monthly basis, so that it reflects true changes in suppliers' costs. Do you think that the price-cap figure should vary on a monthly basis, or what would be a sensible frequency for Ofgem to look at where the price cap should be?



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Ed Kamm: I do not think the typical consumer would want to see their prices change every month. Remember that that could go up or down. What Ofgem has done with the CMA on the prepay price cap in terms of adjusting that every six months makes sense to us.

Q279 **Mark Pawsey:** To the others, if Ofgem put the price cap, how often should Ofgem review it?

Michael Lewis: Six months.

Stephen Forbes: Six or 12 months.

Sarwjit Sambhi: Not monthly; for the rest, indifferent. It could be six months or 12 months. Clarity is the most important thing.

Q280 **Mark Pawsey:** I have one question, if I may, to Mr Kamm. In the same way as we have two tiers of customers—those who are engaged and not engaged—we have two tiers of suppliers: those who have fewer than 250,000 customers and who are not liable for the environmental and social policies, and those that are. All of you are the larger size. Mr Kamm, your firm has suggested that those charges should be applicable to the smaller suppliers. Would your company have grown to the size it is now if that had been the case when you were a smaller company?

Ed Kamm: It is an impossible question to answer. I think the answer is yes because we brought great deals regardless. Since we have been over the threshold—and we crossed the threshold in 2012, so we have been over it for a number of years—we have still grown from that point. It proves that it was not the threshold that was allowing us to grow. The conditions under which that came into place before 2011 were very different than the conditions we see in the marketplace now. If you remember back to 2011, the total independent market share—i.e. non-big six—was, I believe, 0.3%. The big-six market share was 99.7%. It was used as a way to, hopefully, allow companies to grow. We now have 60 independents in the market, 45 of which are not paying into obligations. The ability for them to access those obligations has become a lot simpler, so we do think it is right.

Q281 **Mark Pawsey:** Should a start-up attract this levy as well?

Ed Kamm: It is wrong that a vulnerable customer cannot access some of the best rates in the market simply because their supplier is not on—

Q282 **Mark Pawsey:** Gentlemen, could you tell me whether you agree with Mr Kamm—just yes or no?

Michael Lewis: Yes.

Stephen Forbes: Yes.

Sarwjit Sambhi: Yes.

Q283 **Chair:** Thank you. I have one final question. Ofgem, in its submission to



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our committee, suggested that the green electricity tariffs should not be excluded from the cap. It is worried about a loophole whereby businesses could move customers to a green tariff to avoid the cap. Do you agree that that is a risk? Can you rule out taking advantage of that loophole if it withstands the legislative process?

Sarwjit Sambhi: I do not see why the exemption needs to be there. For us, there would not be an issue with not having an exemption for green tariffs. We do not think it is a loophole.

Ed Kamm: If it is an active choice the consumer has made, I am okay with having a green-tariff exemption. If it is one that was rolled over to them, similar to the default tariffs that we have heard a lot about today, that, to me, is a rose by any other name, so I think we need to be careful. If it is the default rollover tariff, it needs to be the same as the SVT and the same as the default, which is in the Bill today. If it is an active customer choice that they took, I am okay with it.

Michael Lewis: Exactly the same: if it is an active choice, fine.

Stephen Forbes: It should be a level playing field for everyone.

Chair: Thank you very much, all four of you, for coming to give evidence to our committee this morning.

Examination of witnesses

Witnesses: Peter Haigh, David Bird, Hayden Wood and Patrick New.

Chair: I am not sure what has happened to two of our witnesses but, Patrick New and David Bird, thank you very much for coming to give evidence to our committee today, and welcome to the others as they arrive. The first questions are to Ecotricity and Co-op. Drew Hendry, do you want to kick off?

Q284 **Drew Hendry:** The first question is to Ecotricity specifically: are either of your two tariffs a standard variable tariff?

Patrick New: Do you mean the pay-as-you-go tariff and our other tariff?

Drew Hendry: Yes.

Patrick New: No, they are not. We have a view that there should be a single tariff per meter type, so our customers know that they are on the latest, best price at all times. They are free to move, so we do not have any form of penalty or exit fee.

Q285 **Drew Hendry:** Both your submission and that of Co-op Energy have mentioned the exemption of green electricity tariffs in the bill and argued for green gas to be likewise exempted. However, green-gas tariffs are not



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regulated by Ofgem and, therefore, cannot be exempted through this Bill. How much of an issue can this be for your business, and could this make the Bill detrimental to green energy supply, if I could start with Co-op Energy?

David Bird: We support a cap but we feel that there are additional costs around green energy. Some of those are just the core costs of the renewable energy guarantees of origin, which is part of the market for renewable energy for the independent contractors. From where Co-op Energy sits, we do more than just provide green energy; we support community energy projects. We buy through 40 local community suppliers, and that has an administrative cost to it. We also support the community energy ecosystem by training and conferences, and we start to invest directly in those projects. For us, if green tariffs are not excluded or allowed some of those costs within the pricing mechanism, our challenge will be how we make a margin and continue to invest in community energy and clean energy. Our concern is that all our tariffs are now 100% renewable and there is additional cost to that.

Patrick New: I am in broad agreement with that. All green energy is not the same. There is a range of different types of green energy and green energy suppliers. Some suppliers describe themselves as green but I would question that, to some extent. I know that there have been some headlines about the potential negative impacts on maybe 7 million homes, I saw in the paper, if green energy is exempt from the cap. That is sensationalist and misleading. I do not think there are 7 million homes on green energy at the moment; it is probably less than a million.

Q286 **Drew Hendry:** Where would you challenge those who suggest they are green?

Patrick New: Looking at various websites about their additionality, some people could describe themselves as green if they make a one-off payment of a couple of pounds to a tree-planting charity and they buy and sell green energy in the market. That is very different from having an ongoing additionality, which is what I believe Ofgem's rules are: the additionality that we would apply to ourselves. We have invested in creating new sources of green energy. We have invested in creating Europe's leading electric vehicle charging network. That is ongoing investment that costs a significant amount, and we think customers should have the option to choose, if they want to help develop the green energy industry. It should be a matter of choice.

I agree with my colleague here that, if we did not have an exemption for green energy, that would preclude the investments in generating new sources of renewable energy—developing alternatives to fracking, for example. At the moment, we are investing in developing different forms of green gas. The majority of the population do not want fracking, so we are trying to invest in alternatives. I think it would preclude that sort of investment in the future.



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Just to comment on the point about gas, it is not covered at the moment but it would be incongruous to say that there is an exemption for green electricity but not gas, given that about 70% of customers have a dual-fuel tariff. Trying to explain that there is a difference in the way we are treating the two does not make sense to me.

Q287 **Antoinette Sandbach:** Mr Haigh, I am going to direct my questions at you. You are a 100% green energy supplier owned by Bristol Council. Is that right?

Peter Haigh: No, we are not. We are owned by Bristol City Council and we have a renewable tariff for both residential and business customers, but part of our ethos is to be very inclusive, so we will have not just a green tariff, but also one that is national mix.

Q288 **Antoinette Sandbach:** How long ago were you established?

Peter Haigh: We have been going just about two years.

Q289 **Antoinette Sandbach:** How many customers do you have?

Peter Haigh: We have approaching 110,000 customer meter points on supply.

Q290 **Antoinette Sandbach:** What proportion of those customers are on a standard variable tariff?

Peter Haigh: It is around 10%. The difference in our case between a fixed-price tariff that we currently offer and a standard variable is around about 5%. Some customers do choose.

Q291 **Antoinette Sandbach:** What are the factors that make them choose a standard—

Peter Haigh: It may be on sign-up. For example, even though we do not have any exit penalties, they may be in the midst of moving house or something of that nature, and they want to choose a variable tariff. We write to our customers every month and we always tell them what the best deal is. We are passionate about inclusive; you can physically come into our reception area in Bristol and sign up.

Q292 **Antoinette Sandbach:** You write to them every month and you tell them every month when there is a better tariff available to them.

Peter Haigh: Yes, we do.

Q293 **Antoinette Sandbach:** You have roughly 10% on your SVT, and you have a green tariff. How many customers do you have on that?

Peter Haigh: We have about the same number. Can I get the exact data, because it changes all the time?

Q294 **Antoinette Sandbach:** Yes. Can you write to us?

Peter Haigh: Of course.



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Q295 **Antoinette Sandbach:** It may be commercially sensitive information, but can you write to us with the breakdown of what number of customers you have on each tariff? That would really help us. Do you have a view on the risks associated with relative price caps as opposed to absolute price caps?

Peter Haigh: We are firmly in favour of a price cap—and an absolute price cap—because we believe that is the simplest to administer. Part of the ethos behind the setting up of Bristol Energy was to attempt to redress the balance and customers being ripped off. We do not think that a reference price is in the customer's interests, and we think it should apply to all default or standard variable tariffs. If exemptions are to be made through Ofgem for particular tariffs, so be it, but it needs to be blanket, across the market, for all default or standard variable tariffs. We have 36 renewable contracts now for supporting our green tariff. We do the job properly and we still think the cap should be across all.

Q296 **Rachel Maclean:** Out of the four of you, three are in favour of an absolute cap, and one of you—I think it is Ecotricity—is in favour of relative. Maybe, Mr New, you could start by explaining, given that you are all relatively similar in terms of the size of your customers, why you have taken a different view.

Patrick New: A relative cap would remove the ability of particularly some of the large suppliers but potentially all suppliers to cross-subsidise low tariffs with higher SVTs. A relative cap removes the ability to cross-subsidise. That is one element. An absolute cap would, as I mentioned previously, potentially also remove the potential for further investment in the industry. Whether that is investment in delivering a higher level of customer service or in creating new forms of renewable energy, an absolute cap could destroy that.

I am also very aware that we have introduced a cap for pay as you go, for prepayment meters. If I look back a year ago at the differential between the highest and the lowest prepayment tariffs, it was about £220; today, it is just over £70. As an industry, we have narrowed the price differential, so there is not so much to choose between providers now. That will probably reduce switching. If that were to happen for the SVT market and there was a single cap, it would reduce switching, so it would have a negative impact there.

It would reduce investment in customer service, innovation and new sources of energy. It would reduce switching. A relative cap would be a good idea, but I would also be all in favour of saying that, if a supplier wanted to have a single tariff per meter type, they should be excluded as well, because that absolutely precludes the opportunity for abuse of the market. I would recommend an exemption for a single tariff as well. That means every tariff has to be economically viable and there is no scope at all for cross-subsidisation.

Q297 **Rachel Maclean:** Thank you. Mr Wood, what do you say to the



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accusation that, if there was an absolute price cap, it could damage potential investment? Presumably, you do not share that view.

Hayden Wood: No, we do not share that view.

Q298 **Rachel Maclean:** Why not?

Hayden Wood: The reason we do not share that view is because we think that a price cap will create more competition in the market and more transparency. When a customer switches to a supplier, it will reduce the likelihood of, in later years, them being charged a rip-off tariff that is £300 more than the rate they signed up to. A lot of customers—around nine out of 10—eventually mature on to those really expensive standard variable tariffs that are just very unfair.

We think that, with a price cap in place, it will be much harder for those suppliers to abuse customers in that way. It will mean that, when consumers are choosing their energy supplier, they will be choosing an energy supplier based on the long-term cost of that energy supplier. It will be much more competitive. There would be much more incentive for us, as an energy supplier, to reduce our costs in order to be more competitive when consumers are choosing us. A more efficient business will grow over time and a less efficient business will shrink.

Q299 **Rachel Maclean:** The way that you would compete in the market is by lowering your prices, so you are going to have less money available to invest, unless you can grow your business. That is quite an assumption to make, is it not, given that the market is pretty competitive? You have to spend quite a lot of money on acquiring new customers, which is expensive. I know you advertise on Instagram—you acquired me as a customer that way—and these things are not cheap to do, are they?

Hayden Wood: It is very good to have you as a Bulb member. Welcome.

Rachel Maclean: I am declaring that as an interest. I do not know how good they are yet; I will find out.

Hayden Wood: How can I answer that question? Bulb provides a single tariff to its members. For an average-sized home, that costs about £850 a year. That is £300 cheaper than some of the big-six standard variable tariffs that we heard about this morning. With that tariff of £850, Bulb supplies 100% renewable electricity. For additionality, we supply 10% renewable gas to our customers. We support tree-planting programmes in cities. We also provide the best-quality customer service: we recently won the Which? survey on how quickly suppliers pick up their phone.

Sorry, I do not mean to be marketing but I am trying to explain that Bulb is able to provide a really good service to our members for £850 a year, which is substantially cheaper than any other supplier. We also make a small £50 profit per year on that tariff. From where I am sitting, I see no reason why an energy supplier is not able to charge a fair rate to its



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customers and invest in new technology to support those customers with customer service and support renewable generation at the same time.

Q300 **Rachel Maclean:** Thank you. Can I ask the same question of you, Co-op, and then I will come on to you, Mr Haigh?

David Bird: Yes. We advocate a price cap. This market needs some intervention in order to make it fairer. To this issue between absolute and relative, if we come back to exactly what we are trying to achieve, we are trying to support vulnerable customers and engage those who have not engaged. The CMA said that eight out of 10 of the non-switchers are on less than £18,000 a year. If we are trying to identify the problem, having an absolute price cap reduces the prices for some but will have the impact that we saw in the prepayment market, where other prices come up and the market aligns around a price. We still have 20% of the market for those vulnerable customers in the smaller suppliers who are not getting access to the £140 Warm Home Discount and the targeting of ECO measures. It gets you half the way there but does not support that vulnerable piece.

Co-op is a membership organisation. Our members are telling us, when we have talked to them about this, that they believe, if the Government set the price, they do not need to engage in the market. Again, depending on where this price is set, that is a concern for us and certainly for the industry.

If we then look at the relative price cap, you still do not have the 20% getting the Warm Home Discount—and I will come on to that later—but, for me, the largest suppliers are likely to keep their prices high and take away the cheaper, acquisitive tariffs. That will just reinforce this “It is a regulated tariff; I do not need to engage.” What we are suggesting as the Co-op model is to put that absolute price cap in after three years. We have done a lot of work with our customers over the past nine months: 23% of our customers are on standard variable, compared to 60% of the big suppliers, but we have been working and actively contacting and engaging our customers, so we now have 0.5% over four years who are on standard variable. By putting in an absolute price cap that forces the larger suppliers to make sure they engage with customers, we can change the dynamics of the market.

I still think we need to address this issue of those customers who are not getting access to the Warm Home Discount. It is a linked topic but it is probably slightly separate, although we should not ignore that.

Q301 **Rachel Maclean:** Finally, Mr Haigh, do you think that your business would still have the capacity to invest for the future, if there was an absolute price cap?

Peter Haigh: Yes. The important thing here is that these are customers who are not currently engaged with the market. They are not shopping around today. All that is happening to them is that they are being ripped



off, and have been for years. This is not about changing competition. What may well happen is that, hopefully, they will see some savings and that will encourage them to shop around further. The average saving for our own home territory is around £260 a year. We voluntarily signed up to the Warm Home Discount. To the point that was made by the person in this chair earlier, you can ring us up on the phone, you can call into central Bristol or you can do it by email. I am sorry but it just does not apply that new entrants—particularly Bristol Energy—are in some way fudging their responsibilities. We passionately believe in the ethical retailing of energy. We sell the stuff that heats your home and cooks your food, and I am sorry but others have lost sight of that.

Chair: I could not possibly comment.

Q302 **Peter Kyle:** Just to follow up with you, Patrick, Ofgem, the Government and Citizens Advice all say that a relative price cap would simply drive up the cost from the lowest price barriers and not reduce the top. What is it that you know that they do not?

Patrick New: There are a couple of things. First of all, that is to ignore the fact that a lot of customers are still going to want a low price, so that means that energy suppliers that want to compete on price will still find a way of doing that. But they will not be able to cross-subsidise it by having bloated SVT prices that enable them to have unprofitable, loss-leading, low prices.

Q303 **Peter Kyle:** Does your answer there not apply to a functional market? We are trying to sort out a dysfunctional market, so I do not see how the argument that you have just put forward there applies to the part of the market at the moment that is simply not working. A disengaged consumer is not going to act in the way you have just described.

Patrick New: I would certainly agree that we need to find ways of engaging customers, so a relative cap is one part of it, but a relative cap would stop the variations that we are seeing in prices from the big six. We talked earlier about the difference between their SVT and their cheapest fixed-rate deals, but they would not be able to do that any more, so they would have to find a way of offering lower prices if they wanted to compete by offering lower prices. I agree that there need to be other ways of engaging their customers who are on an SVT.

Q304 **Peter Kyle:** Hayden, I will start with you and come to the other two as well. Do you think it is possible, based on your experience, which is very different from the previous panel's experiences, to find a price cap that works for the entire market?

Hayden Wood: I have worked at one of the big six before. It was my work when I was there that made me realise I needed to stop doing that and start up Bulb.

Peter Kyle: You are marketing again.

Chair: Do you want to let us know your website as well?



Peter Kyle: That is the story on Instagram that sold it to Rachel.

Hayden Wood: I mention that because, having seen how those larger businesses operate from the inside and seen how some of the smaller suppliers operate now, that provides some context for answering your question. I completely think that a supplier—either a large supplier or a small supplier—can operate under a price gap. It depends on what the price cap is.

Q305 **Peter Kyle:** The question is: do you think there is one price cap that can work for the whole market in a complex market?

Hayden Wood: Absolutely. An absolute cap of around £100 a year, based on where current SVT levels are, would go a long way to reducing the bills of the 12 million homes that are currently on SVTs and that are potentially disengaged. At the same time, it would still provide enough price difference between the most expensive suppliers in the market and the least expensive suppliers in the market—around £200—to create an incentive for switching. That works for both ends of the market.

Q306 **Rachel Maclean:** Do you mean £1,000? You said £100.

Hayden Wood: My understanding of the proposed absolute price cap levels is that it would be a £100 reduction on where the SVTs are today.

Rachel Maclean: A reduction—thank you.

David Bird: Again, I came from a larger supplier and I wanted to do something different, so there is an ethos around this table that perhaps is different to the previous committee hearing. We need to keep the competitive market, which is why I advocate leaving the market where it is for this three-year period and then putting the absolute price cap in. I do not want to see this competition stifled, because this market is competitive but not as fair as it needs to be, and we need to find a way of making sure that vulnerable customers are protected and that those who are not engaged are protected. For me, a three-year period creates that window, so we retain the competitive element in the short term, but anybody who is not engaged over three years has a natural protection put in place.

Q307 **Peter Kyle:** You can speak if you have anything to add to that.

Peter Haigh: Only the fact I used to work for one of the big six, just continuing the theme.

Peter Kyle: That is not adding.

Peter Haigh: The cap should be put in now. It should apply to standard and variable tariffs, and any default tariff, and it should be across the market.

Peter Kyle: You had your mouth open at one point, Patrick.



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Patrick New: I was probably breathing. We are focusing solely on price with a price gap. I made the point previously that some customers might want to pay for better customer service or they might have a broader objective, which might be investing in renewable energy, for example. For them not to have a choice, because a cap would preclude that, is disadvantaging some people.

I would make one other point in terms of setting the cap. We have to be mindful that there have been, for some time, some ultra-low prices in the market that distort media, regulator and customer views about what a reasonable price is. We have seen, over the last couple of years, what has happened to companies that have had ultra-low prices. We saw GB Energy go bust. We have seen the likes of Flow Energy increase their prices about 20% over the last two years, having previously been the lowest in the market. Even for OVO, which is a success story in terms of customer growth, prices have gone up 20% in the last two years. I would question the sustainability of some of the ultra-low prices, so we need to be careful in using them as a guide.

Q308 **Peter Kyle:** Finally, as an aside, this is the second panel that is entirely men. Does your sector have a problem with women?

Patrick New: We certainly do not.

Q309 **Peter Kyle:** Some of you have worked in the big six; some of you have come here. It is almost impossible to go into a roomful of people in your sector and find more than one or two women in it. You will never find more than half.

David Bird: What you miss is that, at my previous organisation, half of my team were female. You had behind Michael Lewis a director of strategy and regulation, who is very capable.

Peter Kyle: I noticed who was behind.

Q310 **Chair:** Does any of you employ more than 250 people?

David Bird: Yes.

Patrick New: Yes.

Peter Haigh: No.

Q311 **Chair:** Ecotricity and Co-op Energy will have to publish your gender pay gap. Have you done so already?

Patrick New: We have not done it yet, no.

David Bird: Our board signed it off last night, so I can certainly circulate that, but it went to our board last night for approval.

Hayden Wood: I can tell you our gender pay gap is zero.

Q312 **Chair:** It is actually zero. I will take your word for it. It is very unlikely



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that the average man and the average woman in your organisation would be paid exactly the same.

Hayden Wood: There are 85 people in our company. We know what they are all paid, we know what roles they are in and we know their gender. It is something that we take very seriously because I agree with your point that this industry has a problem with that. We also see a problem around gender in the technology sector. When we are constantly trying to recruit people, we are trying to recruit people with diversity and we are constantly battling those biases. We take it very seriously.

Q313 **Chair:** We would be very keen to see that information from Ecotricity and Co-op Energy. If you share it with us before it is published, we will treat it on a confidential basis. Thank you very much.

Q314 **Stephen Kerr:** Peter, in your submission, you said that you did not think that smart meters would have any impact on the price cap. Is that your position? It sounds to me like you are suggesting that the cap will be permanent.

Peter Haigh: I do not think that, in themselves, smart meters will help get a better deal for those customers who have been on a standard variable tariff for many years. We hope that it leads to a more engaged conversation with customers and a better choice of deal for them. What is really important to us is being inclusive and that people are not left behind by smart. We have already started rolling out smart meters. We are one of the very few suppliers that have got through all the accreditations for smart already, but it is not, in itself, going to fix the problem. We would like to think that the cap will go away in a number of years because the market is working effectively.

Q315 **Stephen Kerr:** It is not going to be a permanent feature.

Peter Haigh: I would hope not, but the permanent feature has to be one of looking after the vulnerable and the disadvantaged. You cannot keep ripping people off.

Q316 **Stephen Kerr:** I am interested to hear the points of view of all of you about whether smart meters will make the market work for consumers.

Hayden Wood: So far, I would not say that smart meters have worked for consumers as much as they could have done. In the first round of smart meter installations, we have seen larger suppliers install smart meters that are no longer smart when their customers switch away from them. For us, it is very important that smart meters remain smart when you choose a different supplier.

The other comment that I would make on this is that a smart meter is not necessarily going to turn somebody who does not remember to switch their energy supplier every year into a different type of person who, all of a sudden, is going to switch. Using the word "engagement" and thinking that that means the same thing as switching versus



understanding how much you are spending is a dangerous conflation, in our point of view.

Q317 **Stephen Kerr:** What will smart meters do for your customers?

Hayden Wood: We are very excited about smart meters, because they will allow us to communicate much more to our customers about how much energy they are using. If you inform people how much energy they are using, they begin to change their behaviour, use less energy, lower their bills and lower carbon emissions.

Stephen Kerr: They become engaged.

Hayden Wood: They become engaged, but that is not the same as potentially running a comparison on a price comparison site and switching to a cheaper supplier. That is a different activity, so to combine those two things and say "We have a smart meter in the home, so we do not need to worry about that" would be a mistake.

David Bird: In a way, what frustrates me is that all the focus at the moment is on price per kilowatt hour. That is really important when we look at the situation we find ourselves in, but if we really want to help customers it is about engaging with them. If I give you an example, we are running a pilot in Bethesda, in north Wales. It is an area of significant economic deprivation. We are working with a local hydro generator there. We have put in some smart meters. We are working with that community. We have reduced their average annual energy consumption by a minimum of 19% and on average by 30%. When we start talking about taking a few pence off the kilowatt hour, that will impact customers, but that is transformational change when we can change—

Stephen Kerr: This is behavioural.

David Bird: This is behavioural change. That is working with the community, but smart-metering is integral to that.

Q318 **Stephen Kerr:** Is this a kind of smart grid approach?

David Bird: Yes. We are working with the National Trust. We have a hydro generator. We are working with the community. We then provide it with energy. We provide the supply of the meters and the tariffs, and we provide energy education and advice. They then get a benefit that they can see. When the hydro is working, they get their cost of energy at half the price that they normally would.

Stephen Kerr: This is the transformational effect of smart metres.

David Bird: It is the transformational effect. Not everybody is going to benefit from that, but those organisations that perhaps have a different shareholder or ownership model have a different driver to change behaviour rather than just generate profits for shareholders.

Stephen Kerr: It would be excellent if you could share the case study you just mentioned with us.



David Bird: Yes, certainly.

Patrick New: At Ecotricity, we are genuinely passionate about green energy and we would say that the greenest energy is the bit that you do not use. Smart energy meters will make people more engaged with their energy consumption, so it is an excellent thing and we are 100% behind it. Do I think that it will encourage people to switch more frequently? No, I do not. I do not see a link at all. I do not see a link with the smart energy rollout deadline and the potential end date for a cap. I do not see the link there.

Q319 **Stephen Kerr:** Smart meters will not negate the need for a cap.

Patrick New: No.

Stephen Kerr: Engaged customers will not remove the need for a cap.

Patrick New: It is a different form of engagement. They will be engaged with their energy consumption. It will put them in touch with their energy consumption, which is great. Does it mean that they will be more likely to switch between suppliers? No, I do not think so. I do not see that.

Q320 **Stephen Kerr:** Peter, do you have anything to add?

Peter Haigh: Not really. Smart is going to be really good for most customers. It is making sure that we have something that is appropriate for all.

Q321 **Vernon Coaker:** This has been quite a refreshing session. We all want a market that works and it is an interesting challenge to some of the other points that have been made. On the environmental and social costs around all of this, I was struck by the idea that it is not just about cost but about efficiency and so on. One fact we had was that reductions in gas and electricity use since 2008 have been 23% with gas and 17% with electricity. We would all want to encourage you, because that will help accelerate that.

On the issue of green levies, for want of a better term to use, David, you argue in your submission that smaller suppliers should bear the costs of those social and environmental policies as well as those people who go over the threshold of 250,000. Do you think there is any danger in that for smaller suppliers starting out, which are below that threshold, not that it might discourage them but that they might find it difficult to deal with in their initial stages of entering the market?

David Bird: No, because they were put in place when the market was very different, and now there are virtually 60 suppliers. The ability for new suppliers to enter the market through the supplier in a box model is now well established and they do not take a lot of the risks. They can go to a number of players and just get the systems and capabilities. It disadvantages their customers if they do not provide that. When Co-op Energy was set up, we were a new supplier and we decided, because we thought it was the right thing to do, to take part in the Warm Home



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Discount scheme before we needed to. We took part in FIT administration before we needed to, because it was the right thing to do. You have two suppliers here who can testify to the fact that you can do it without it being a barrier.

It was a way of creating a price advantage for suppliers to enter the market but it is now disadvantaging customers. Any vulnerable customer in those suppliers does not get the benefit of the £140. Because they are not paying ECO, they are not trying to actively engage those customers to get the benefit of those measures. It was right for its time and things need to change.

Q322 **Vernon Coaker:** Does anybody else want to make any points on that?

Patrick New: Yes, I would. I have a different view. Large suppliers have a number of economic benefits.

Q323 **Vernon Coaker:** Are you above the threshold?

Patrick New: No, we are below. Large suppliers have a number of economic benefits. They have economies of scale when it comes to cost to serve; they have increased buying power in the wholesale market; they have increased power when it comes to negotiating terms with third parties; and they have access to credit that some small suppliers do not have. Those are economic advantages that make it hard for a small supplier to gain a foothold in the market. Although I agree that there are more small suppliers in the market now than there were a few years ago, we do not want to stop new small suppliers coming into the market because they do not have those financial and economic advantages that the big ones do.

Q324 **Vernon Coaker:** You think there should be one?

Patrick New: There should still be a threshold, absolutely.

David Bird: My concern is that we always think about it from the supplier's perspective rather than the customer's perspective. If we were starting afresh, in my view, you would put this into general taxation. The wealthier should be paying a higher proportion of the investment, and there should be a national infrastructure programme to get our homes fit and ready for the future. Some customers are not able to take advantage of the benefit, and a significant proportion of the more engaged customers, who are 20% of the market and tend to be more affluent, are not paying a tax. That, to me, seems disingenuous and a perverse incentive as a taxation. Whether there should be incentives for new suppliers is different. From a customer perspective, it seems wrong that some are not getting the benefit and other people are not paying a tax.

Q325 **Vernon Coaker:** It is interesting. I do not know if Peter or Hayden wanted to add anything.

Peter Haigh: We have voluntarily signed up to the Warm Home Discount for the core group. We voluntarily signed up to the FIT scheme.



Q326 **Vernon Coaker:** Can you operate efficiently with that Warm Home Discount?

Peter Haigh: Yes. To the same point, there are customers who have installed, at their expense, solar panels, and who are on a FIT scheme. There are customers who qualify for the core group of Warm Home Discount. They have chosen to be with Bristol Energy. We do not have any customers who are three years old on whatever tariff. That is the reality. We cherish our customers.

As regards the ECO scheme, we would really welcome the opportunity to work with BEIS on its reincarnation, because there are multiple segments: energy efficiency, CO2 and hard-to-reach homes. It is administratively complex and, to be honest, by and large, it was designed by the big six. As a market participant, we absolutely want to be able to do that but it has to be effective in terms of the ECO scheme.

Q327 **Vernon Coaker:** Hayden, can you operate efficiently and effectively with these costs facing you?

Hayden Wood: Absolutely. In the last 12 months, we have signed up 250,000 customers.

Q328 **Vernon Coaker:** Is that across the country or is it regional?

Hayden Wood: It is across Great Britain. It is quite a smart policy and I would thank the Government for that, because, two years ago, had it not been there, we would have found it very challenging to launch Bulb against some very large and formidable competitors. Now, at our current scale, and from 250,000 customers to 500,000 customers, we can achieve cost reductions through these economies of scale that are pretty much exactly the same as those policy costs. It is very smart from the point of view of competitiveness in the market, but I do agree that there are complexities that are created for customers around things like Warm Home Discount and feed-in tariff administration.

Q329 **Vernon Coaker:** David, do you have an SVT because of these policy obligations?

David Bird: We have an SVT. Again, we have taken advantage of the rule changes, so we are probably the first organisation. We started, from December, writing to our customers. Ofgem changed the rules, so, when customers fall off a fixed rate, we are putting them on to a default fixed, which we were not able to do before. Before, we were having to engage with customers to try to convince them, whereas, now, we are putting them on to a default fixed that takes about £100 off.

Q330 **Vernon Coaker:** What is the breakdown of that?

David Bird: We have 346,000 customers: 23% are on standard variable but, after four years, it is 0.5%, so we have 1,600 on SVT after four years.



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Q331 **Vernon Coaker:** You have reduced it from something to something; what is it now?

David Bird: 23% of customers are on standard variable, but those who are four years and above are 1,600, so it is 0.5%, because we have actively engaged with those customers. In the last nine months, we have really taken proactive steps. As well as just sending information on bills, at renewal we are contacting customers seven times by email, outbound phoning and letters to engage with them, to try to get them on the right tariff.

Q332 **Vernon Coaker:** You want everybody off. Have you set a target to get everybody off?

David Bird: We have not set a target. Partly, we want to see how the default tariff works. We have to accept that there is a risk. If you take somebody on to a fixed-term contract that they sign up to, you can buy all the energy and you know what the costs are at the point they do that. If they are on a standard variable, they could leave you at any point. Last week, we saw gas prices spike by 50%. We are taking that risk and we need to price that risk in, but we have the second lowest green standard variable in the country. It is not that we are trying to take advantage of our customers; we are trying to get fair pricing at a reasonable margin on all our tariffs that reflects the risk involved.

Q333 **Chair:** Finally, in your submissions to us, Co-op Energy and Bristol Energy expressed a preference for a temporary cap rather than a permanent one. Bulb and Ecotricity, do you agree that it should be temporary, or would you like to see a longer-term cap going beyond 2023?

Hayden Wood: We think the absolute cap to protect disengaged customers should not have a sunset clause on it and should remain beyond the period. As mentioned before, this idea that smart meters will remove the need for it is not true. We think the cap is good and we think it should be there permanently.

Patrick New: If any cap is introduced, it should be subject to very regular review. I would not put an end date on it linked to smart meters at all. It should be reviewed regularly to see whether it is working or whether it is damaging.

David Bird: Just to clarify, we believe that there should be an enduring cap for vulnerable customers. But, with the smart-metering changes, it will become incredibly difficult to provide a level of cap with the complexity that smart-metering offers.

Chair: Thank you very much, all four of you, for coming to give evidence to our Committee today.