

Business, Energy and Industrial Strategy Committee

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

Wednesday 17 January 2018

Ordered by the House of Commons to be published on 17 January 2018.

Watch the meeting

Members present: Rachel Reeves (Chair); Vernon Coaker; Drew Hendry; Stephen Kerr; Peter Kyle; Ian Liddell-Grainger; Rachel Maclean; Mark Pawsey; Albert Owen; Antoinette Sandbach.

Questions 422 - 510

Witnesses

I: Claire Perry MP, Minister for Energy and Clean Growth, Department for Business, Energy and Industrial Strategy; Dan Monzani, Director of Energy, Networks and Markets, Department for Business, Energy and Industrial Strategy.

Written evidence from witnesses:

- [Department for Business, Energy and Industry Strategy - written evidence](#) | [PDF version](#) (73 KB) 

Examination of Witnesses

Witnesses: Claire Perry MP and Dan Monzani.

Chair: Thank you very much, Minister, for coming to give evidence to our Select Committee today, and congratulations on your promotion in the reshuffle. We are pleased to see that you are still here at the Department for Business, Energy and Industrial Strategy. Dan Monzani, thank you as well for coming along with the Minister. As you know, Minister, we have spent the last few weeks looking at the Government's draft legislation and we are pleased to have been able to take part in the pre-legislative scrutiny. We have heard from a number of people on these issues and we are keen today to put some of the questions that they have put to us, and also some of our reflections and outstanding questions, to you before we come back with our views on the draft Bill.

There are a number of questions this morning. We are going to kick off with Albert Owen.

Q422 **Albert Owen:** Thank you very much. Good morning, and welcome back to your role. The Bill is important to us because we are doing this pre-legislative scrutiny now, but we do not really have a timetable for how it is likely to go forward and impact on the customers. Can you tell us what your timetabling, provisionally, is, and importantly, will the Bill receive Royal Assent before the summer recess? We had a session with Ofgem, and it made it clear that it would want five months of consultation after Royal Assent. To get it in for next winter, we need Royal Assent by summer. What is your view on that?

Claire Perry: Thank you for the important question, Mr Owen. Can I also thank the Committee very much—I have the read the transcripts—for a really thorough review of a really important piece of legislation, and one where, if you are going to intervene intelligently in markets, you want to get it right. We are all extremely grateful for the level of detail.

The legislative timetable is always subject to anticipated levels of support from the Committee—getting a clean bill of health from the Committee is incredibly important—and from Parliament. Assuming we can do that, the intention would be to introduce the Bill shortly with the intention of getting Royal Assent before the summer recess because we understand Ofgem needs to carry out various tests and conditional activities. It has told us it can do some of those in parallel, but we want to maximise the opportunity for these provisions to be in place before winter 2018.

Q423 **Albert Owen:** Okay, so Royal Assent by summer.

Claire Perry: Assuming we have no controversy during the Bill process, yes.

Albert Owen: I understand lots of issues will be outside your remit and the business of the House, but that is a very clear indication and is one I think the Committee will be comfortable with.



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Q424 **Stephen Kerr:** Minister, under Clauses 6 and 7 of the Bill, the Secretary of State makes the final decision about whether to extend or remove the cap, and that decision is based on a recommendation of Ofgem, which is about whether conditions are in place for effective competition. The Bill itself does not specify what “effective competition” is, so what indicators will the Secretary of State use to determine whether there is effective competition?

Claire Perry: Thank you, Mr Kerr, for what I think is the kind of fundamental question that I have been asking ever since I took over the portfolio. I think two things: first, it is really important that we are giving further powers to a regulator to regulate effectively in this market, and we think it is right that there is this element of arm’s length regulation. For some aspects of competition—the number of entrants in the market, the increased level of switching—there is evidence that consumers are taking advantage of increased competition. We will be expecting Ofgem to tell us when it thinks the market has achieved a more competitive outlook. I think it will be based on an economic assessment of the evidence.

The detriment, of which we have a quantum in our heads—we have seen a number of £1.4 billion to £2 billion in recent years—we would expect a significant reduction in. I do not want to see that set in absolute terms because we still want the industry to be able to invest. While we would expect operational efficiencies to improve, I do not think we would set an absolute number, but we would expect that to come down.

We would expect to see the differential between the standard variable tariffs, if they still exist, and the cheapest tariffs in the market reduce, particularly for the big six, where there is evidence that that differential is smaller and that both rates are pegged at a higher level. We would expect to see, as in all markets, the most vulnerable consumers continue to enjoy protection. There is a series of conditions. As the CMA report made clear, in testing for a failure of competition in the market, we could not rely on one particular variable, but we would be relying on Ofgem.

Dan Monzani: The nature of the market is changing over time and we are doing a lot to enable that, with things like smart meters. That means you need to take along the lines that Ministers set out about the engagement of consumers in the market and the extent to which innovative businesses are able to succeed and offer their propositions effectively to consumers. Therefore, looking for a single measure against which you would test the effective competition too early would risk not appreciating those changing dynamics in the market. That is why we are looking to enable the regulator.

Q425 **Stephen Kerr:** What are the features of a truly competitive market? Just summarise them for us.

Claire Perry: It would be that you have informed consumers. We know some customers will choose never to be informed or never act upon



information, so 100% awareness of switching may or may not be a measure, but we want an improvement in informed consumers, recognition of consumer behaviour, protection for the most vulnerable and loyalty not being punished. One of the troubling features in this market is that loyalty is effectively punished in terms of higher tariffs. Seeing that diminish would be important.

Competition is crucial to stimulating the sort of innovation that we are expecting. We are in a really innovative place in terms of energy markets, which is very exciting, but seeing that innovation, seeing the roll-out of smart meters, seeing the move to distributed energy use—all of this—would be a test of a healthy and competitive market.

Q426 **Stephen Kerr:** There is no one indicator.

Claire Perry: That is the strong sense we have. We are grateful for the Committee's view on this. We do not want to set tests that stimulate unintended consequences, or be incredibly prescriptive about what the market should look like, because there is so much change and innovation. We all recognise that, in the current market, while it has elements of competition, the persistent detriment—particularly for the most loyal—indicates that this is a market that is not working, which is why this intelligent intervention is required.

Q427 **Stephen Kerr:** The detriment would be the single biggest indicator.

Claire Perry: It would be an important indicator, but not the sole indicator. There will be some customers, just as with any other market, who choose to pay more for other products because they think there is better customer service or their time is worth more. There are all these things.

Q428 **Peter Kyle:** Thanks, Minister, and congratulations on the promotion. Of all the metrics you just described to Mr Kerr, the only one that seems measurable to me is detriment. For example, how would you measure with any rigour how loyalty is not being punished? How is that measurable?

Claire Perry: You could, as we have started to, gather data—and the CMA report was helpful—on which customers have remained longest with a supplier and are paying the most. That can be measured. This move towards much more transparency about customer behaviour and customer loyalty is to be welcomed. I would argue you can measure some of this, and then you can effectively, without saying there is a threshold, understand it. You would expect it to diminish.

Q429 **Peter Kyle:** Will your department be measuring these and publishing this data?

Claire Perry: I believe we would rely on Ofgem to take its own view on this, starting with a baseline from which you can make those comparisons. I am always happy for BEIS to step in with data. As we



have done with our view on energy bills, which have gone down—as we give evidence on—using the BEIS data can be very helpful.

Q430 **Albert Owen:** Ofgem, you and we as a Committee have to make a clear case that loyalty should be rewarded and encourage companies to reward customers. If they want to hold on to them and not have them switching, they need to be fair to them and give them some loyalty bonuses. Would you encourage that, as a Minister?

Claire Perry: I would encourage that as a consumer, Mr Owen. You have seen a really big increase in competition, which is great and to be welcomed, in terms of the numbers of companies and the amount of switching. But the most worrying thing about this market is that you still see persistent overpayment for companies who, based on the evidence, appear to be younger or older: renters, customers who fall into more vulnerable groups, or those who are not aware. That rewarding of loyalty and the removal of the detriment would be a very important measure.

Q431 **Rachel Maclean:** Welcome, Minister. This Bill is fascinating, because it goes to the heart of the debate of what a competitive market is and why we care so much about having a competitive market. We see from both parties this drive for fairness in markets and for competitive markets to deliver for consumers. We are really interested, as the Committee, in how we define fairness. Is the intention of this Bill, from the highest levels of the Government, to deliver fairness for consumers?

Claire Perry: Yes. I believe in market competition. You could point to many of the benefits that we have seen from the liberalisation of markets over the last 20 years, but you have to ensure fairness and, crucially, that the regulatory structure you set up at the time of a market liberalisation is fit for purpose and evolves. That the changes that have happened in the energy market, particularly around more intelligent consumers and the introduction of the ability to find more competitive deals, are not percolating through the market suggests that this is not a properly functioning market.

I think it is right of Government, where there is a market that is not working, to intelligently intervene to make sure it works for consumers. People ask, “Why are you not doing this for car insurance or mobile phones?”, and of course there have been moves, but there is something very fundamental about energy—about heating and lighting a home—particularly for the most vulnerable customers. If you look at the data, it suggests that the young who are in rented accommodation and the old are disproportionately affected by the persistence of this differential.

Q432 **Rachel Maclean:** You are saying that achieving fairness in this market is definitely an objective of this Bill.

Claire Perry: Yes.

Q433 **Rachel Maclean:** It is a consensus at Government level that this market is currently not only not competitive, but also not fair to certain groups.



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Claire Perry: Yes. You have taken evidence from lots of people who would argue otherwise. Our diagnosis of this, based on the advice from the CMA and from Ofgem, is that there are troubling, persistent issues, particularly around the detriment, that suggest that the market could be better. That is the way I would phrase it. With this intervention we expect the market to deliver more fairness and better outcomes for consumers.

Q434 **Chair:** Building on Rachel Maclean's point and your answer, Minister, I agree with you that there is something about energy that means that it is very important that it is fair, because it is an essential good. But there are many other markets where switching rates are very low, and where loyalty is not rewarded—in fact, the exact opposite. Dermot Nolan from Ofgem, when he gave evidence to the Committee last week, referenced the insurance sector as an area where there are low rates of switching, but that is true in broadband, mobile phones, landline phones and, outside your remit, in financial services, particularly bank accounts, but also mortgages.

Do you think there are learnings from what you are doing in energy for other markets, not perhaps to have a cap, but to encourage regulators to push further, to ensure that those markets are more effective and, as Rachel Maclean has said, fairer for consumers.

Claire Perry: I would not want to stray off-brief into other Departments, but my instinct is yes. There have been caps put in place on fixed telecoms lines, which was interesting, and was again a direction of travel. Interestingly, since the conversations about the introduction of the Bill have happened, we have seen suppliers starting to change their behaviour, so we have seen suppliers saying they will move away from SVTs. There has been a focus. It is not going fast enough, and we should not have this persistent detriment for the next few years.

It is right to intervene now in a limited way, but the essence is that we want competitive markets that are well regulated and deliver outcomes. Of course there will always be consumer choices. Some people will choose to pay more for certain services because of their variable interests. In this case, it is the fact that you have this persistent detriment and a clustering of the detriment, which tends to be around the largest companies that have the most customers, and seems to disproportionately affect the most loyal customers.

We have lots of examples of good businesses in the private sector that reward loyalty and where consumers are rewarded for remaining. That should be the message: businesses that succeed should be the ones that reward loyalty, not penalise it.

Q435 **Chair:** You have already sort of done this, but what message would the Government like to send to businesses that are not rewarding loyalty or are treating customers unfairly?

Claire Perry: We believe passionately in competitive free markets because we think they deliver wealth and prosperity around the world,



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but, if there is a market that is failing, Government will not hesitate to intervene intelligently for the benefit of consumers.

Q436 **Mark Pawsey:** Secretary of State, I want to ask you some questions about the—

Claire Perry: Please, may I just correct you? I am not the Secretary of State. I think it is very important the record shows this.

Mark Pawsey: It may be one way of getting you onside. I want to talk about the detriment and differential, but I want to talk to you a little more about the principle of the cap that we are introducing, which is to deal with a market that is not working. One of the ways we could make the market work is by encouraging greater levels of switching. We have put lots of effort into that in recent years. Switching increased by 15% last year despite the big six making it difficult for people to change, because—there was evidence in the *Times* only yesterday—people, when they telephoned their supplier to talk about changing, were kept hanging on the telephone line for 20 minutes.

Why do we not simply put a booster rocket behind the encouragement for people to change? If the big six know that people are more likely to change, they are going to be more likely to keep their prices in line and make them competitive.

Claire Perry: Yes, I agree. As somebody who has switched twice—just in case I get asked the question—I found it remarkably easy to do. I did it through a third-party site. The company I switched to took care of all the admin. I got a notification through the third-party site that my tariff was about to expire and I would pay X more, so I found the process extremely easy. However, looking at the switching data, it is interesting that something like 83% of households have yet to switch. There is a persistent switching group developing, customers who are very savvy and find it worth their while, and there are others who will never consider switching.

The latest data suggests that almost half of respondents in Scotland and Wales and 40% in England said they are unlikely to consider switching in the next three years, despite the fact Government directly supports switching through funding, through the Big Energy Saving Week and the Big Switch, despite the fact there had been a lot of information about this, despite the enabling factors like the rollout of smart meters.

If you look at the demographics, the thing that troubled me was that the groups that are least likely to switch are those aged 16 to 34, many of whom are in rented accommodation, those who are the least well-paid and those who are the least well-educated. You can argue that, if it was a perfect market, everyone was set up to switch and ready to switch the whole time, you would have perfect pricing, but there is evidence that there are some groups for whom switching will never be an option, and some who just say, “Why would I want the hassle?”



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Q437 **Mark Pawsey:** If it is never going to be an option, how are we ever going to remove the cap, Minister?

Claire Perry: Because you will evidence that those people will not be overpaying for their loyalty

Q438 **Mark Pawsey:** So they will not bother to switch. We have spent the last five or 10 years encouraging people to switch, but Ofgem said to us that, if we have a cap, the rates of switching will fall because there will be no point in switching because everybody's price will be near or around the cap. Has all of the effort that we have put in over recent years in encouraging people to switch been a complete waste of time?

Claire Perry: I disagree with that. The only evidence we have is the PPM cap, and the extension of it to vulnerable customers. It is not clear that switching rates have dropped. What we do know is that prices have fallen by an average of about £60 per household. Everyone is paying less on average, which is a good thing. People are achieving the benefit that you would expect to have from switching, which is that they are achieving a lower price, and presumably are satisfied with the other customer service benefits.

To me, it is important to give people the opportunity to switch. I remember the days when it was impossible to read your consumption data from your bill, so you could not even understand the bill in order to find the data to switch. Clearly that has improved, and things like the midata provision make it much easier.

Q439 **Mark Pawsey:** All of that will become less relevant, because there will be no point in switching because everybody's price is going to be the same and will rise up to the cap.

Claire Perry: I do not agree. I think you will have less overpaying in certain tariffs, but you would expect there still to be a very competitive market, because we have 60 companies now who would like to be your energy supplier. Ultimately they should be able to, because they can transfer you quickly.

Q440 **Mark Pawsey:** How will those new, emerging companies pick up business if people are not minded to change because all the prices are broadly the same?

Claire Perry: They might offer better customer service; they might offer bonuses. There are lots of ways to persuade customers to come and use your services. Price is one part of it, but the thing I will come back to is that the most loyal consumers in this market appear to be overpaying based on the market data, and in some cases do not appear minded to switch.

Dan Monzani: The Bill is deliberately constructed to require the regulator both to look at the primary importance of protecting



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consumers, as we talked about, and to pay due regard to the needs of competition and further successful competition.

Q441 **Mark Pawsey:** What is the biggest differential that you are aware of with an energy supplier?

Claire Perry: The biggest differential, based on the numbers at the beginning of this year, was at the Co-op, which was £299. That is within its tariff structure.

Q442 **Mark Pawsey:** So we are concluding that a differential of £299 is not acceptable.

Claire Perry: If you look at the differential for the top six versus the cheapest tariff, it is about £300. The CMA suggested—and I go back to that report, because they are the experts on whether this is competitive—that overall this market detriment effect and having this money, which disproportionately falls on the most loyal customers –

Q443 **Mark Pawsey:** You are saying £300 is unacceptable. What level of differential is acceptable, Minister?

Claire Perry: It gets back to what is the right reduction in detriment. It is a really important question, which from the transcripts I know many Committee members have asked, about not wanting to drive out investment in the market, because clearly that has been done in other countries, including in California. You want Ofgem to set the cap at a level that does not disincentivise switching, allows investment in the market, and rewards loyalty. I would not be comfortable giving an absolute level, but I would expect that detriment to have reduced significantly.

Q444 **Mark Pawsey:** If we are going to identify that competition has returned to the market, we need to know what an acceptable level of differential is. Is it £50?

Claire Perry: It would be based on these various tests about differential, about switching, about consumer information and consumer satisfaction. It is very striking that consumer complaints are quite low in this sector despite the fact you have very long wait times.

Q445 **Mark Pawsey:** If we are going to withdraw the cap, we have to have some criteria by which we can say that the market is now effective. I am trying to press you and perhaps Mr Monzani on what is an acceptable level of differential, given that we know that £300 is unacceptable.

Dan Monzani: If I may turn it around the other way –

Q446 **Mark Pawsey:** No, I would rather leave it the way I posed it, if you would not mind.

Claire Perry: My short answer is that we would be relying on the regulator in this market—whether it requires commissioning another CMA report—to test whether competition has improved. That would be a



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decision for the regulator. It would be advising us on whether it was the right time to lift the cap. If we wanted to go back and challenge that based on the probing questions from the Select Committee at that time, we would have the ability to do so under the draft legislation.

Q447 **Peter Kyle:** Minister, are you confident that the cap will be lifted at some point?

Claire Perry: Yes. We have a sunset clause, so according to the legislation it has to go in 2023. We all know that legislation can be reintroduced, but I am confident, because I think this is an intelligent intervention; I come back to that phrase. It is considered to be a reset of the market. We think this market is moving in the right direction but not fast enough, and we want this to reset. The evidence from the early responses from companies is that they are responding, just not fast enough. I am personally confident we will be able to lift this cap and have a more competitive market that still has adequate levels of investment and enables us to take advantage of what is an energy revolution that we are at the forefront of having.

Q448 **Peter Kyle:** The cap is putting Government demonstrably on the side of consumers. Lifting the cap will be seen by consumers as doing the opposite. You accept that there will be a tough decision by Government to go out to consumers and say, "We now are going to throw you back to the system that ended up with over three-quarters of you paying too much money".

Claire Perry: I appreciate that could be one interpretation. You could also say that the consumers would then feel they had reassurances that Government would not hesitate to intervene if there were perceived market problems, and would have more trust in the regulator because it had enhanced powers to intervene. Even with the sunset clause, the other measures that the regulator intends to bring forward—better consumer engagement, all the other packages, extension of protection to the most vulnerable—should hopefully give consumers some reassurance that this market is working for them. The intention is that these markets are consumer markets and have to work for consumers.

Q449 **Peter Kyle:** We are talking about consumers and we are talking about Government and the regulator, and in the middle we have the utility companies. They are going to feel like life for them is underneath this cap; their market is going to be distorted by the cap. If you were speaking directly to the people running these utility companies, what do they have to do culturally within their companies to get ahead of this? Because of their behaviour, Parliament and the Government are now taking control of their market, in effect. What do they need to do between now and when the sunset clause comes around and they have an opportunity to free themselves of the cap? What do they need to do culturally within their sector?



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Claire Perry: Mr Kyle, this is not taking control of the market. We are not suggesting a £120 billion nationalisation of the National Grid. We are suggesting that we will cap, as we do in some other sectors, the maximum level that can be charged for a particular service, which is an element of the market. I expect them to improve their efficiency, because there is clear evidence that some companies do a much better job of providing power and heat at a lower price, and we want to see that continue.

I would expect them to commit to the consumer-facing measures, which they are under licence to do—so the rollout of smart meters, the improvement of consumer engagement—and I would expect them, as our best companies can do, to think about how to reward customer loyalty. If the way to generate a healthy economy is to reward customers for staying with you and provide them with an excellent service for which they are prepared to pay, that to me seems like a very good business model going forward.

For the big six, in 2016 gross profit, which is not necessarily a measure, was over £1 billion. This is a sector that is largely cash-flow-positive, particularly at the upper end. We have some highly skilled and highly paid managers in this sector and we would expect them to recognise that they are operating some of our biggest companies on the cusp of an energy revolution, which Government is involved in funding and promoting, and to act in a way that delivers the best possible service to their consumers.

Q450 **Peter Kyle:** You have given a list of things that they can do, which sounds a bit like a few tick boxes that they need to achieve in the next five years. Are you saying there is nothing culturally wrong with the sector that has led to these challenges and nothing culturally needs to change within the sector?

Claire Perry: I would not want to comment on the boardroom culture of these companies because I have not worked for them or spoken to them on this issue, but, if you look at what you expect to happen, you want markets to work. I go back to the fact that the CMA has shown that there is a detriment to consumers from this market, which suggests to me that something needs to change. It might be that we have the most effective boardroom culture in the world and for whatever reason they have not worked hard enough with their customers. I do not know what the problem is, but there is a problem there and I think this is an intelligent intervention to solve it.

Q451 **Albert Owen:** It is a very legitimate question about the culture and behaviour of the companies. The Prime Minister said herself that the energy market is broken. This legislation is intervention. The only people we are pointing the finger at are the energy companies themselves. Legitimately, the culture needs to change. Whether you have been in the boardroom or not, you must see that.



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Claire Perry: I would be really interested in your report, because you have scrutinised these companies, and I assume have formed opinions on the—

Q452 **Albert Owen:** But I am interested in your opinion as well.

Claire Perry: I agree with the Prime Minister. The market is broken. I go back to the fact that I believe in liberalised markets with adequate regulations. When it comes to a utility company in particular—we went back to the tangible point about heat and power and the basics of life—

Q453 **Albert Owen:** But this is Government intervention. There are no ifs or buts.

Claire Perry: It is a reset, and it is basically saying—

Q454 **Albert Owen:** No, it is intervention. It is legislation.

Claire Perry: Yes, it is. I think it is right to do that, because we have a market where there is consumer detriment, and we should expect that to be the case.

Q455 **Albert Owen:** I agree, and I believe for it is the bad behaviour of the companies in the past.

Claire Perry: You can argue that companies do what they do in a market with a certain form of regulation. With our market liberalisations, we were first in the world in this area. You have to be able to change things as the situation changes, and with consumer behaviour changing, with the amount of information available, with the expectations changing, we have to be prepared to change. I will point out in defence of the companies, if you look at what prices consumers pay in this country relative to European prices, we are paying among the cheapest prices in Europe for our heat and power—in the consumer sector, not in the business sector—and that is with an efficient sector that is investing.

Many elements of the market have worked, but in this case there is a consumer problem that we want to help companies to solve. For example, if we set a price cap and all the companies priced underneath it, that would be great. The price cap is not a target. Companies are perfectly free to compete below it if they can get their efficiency levels up to a point where they feel it is worth their while to compete there.

Q456 **Antoinette Sandbach:** Minister, you have been asked a lot of questions around company culture. My question is around the culture of the regulator. We had an apology from the regulator in his evidence for failing to protect vulnerable customers. The real issue is around how consumers use the information. Is your assessment that the regulator has been effective in encouraging and supporting switching?

Claire Perry: You will forgive me being relatively new in the job and not having discussed these matters personally with the regulator. Based on the evidence and the transcripts, where I saw the regulator had



apologised, particularly for not being assiduous in rolling out protection to the most vulnerable consumers, the regulator also needs to change. It also needs to use the powers it has more effectively.

It is good that we had the CMA report. One of the things we will do with this Bill is require the regulator to be much more interested in the competitive behaviour of its market, because we will be making a recommendation, pay more attention to things like green tariffs, and be more involved in using data intelligently to target the most vulnerable customers. In a way, although we are not putting specific new requirements on the regulator, other than to set the price cap and make the recommendation, as a result of the Bill there will be a number of very beneficial changes that the regulator will deliver.

Q457 Antoinette Sandbach: I know that others will be asking you about green tariffs, so I am not going to deal with that issue at all. My real concern is that we have something between 64% and 82% of customers on standard variable tariffs. The regulator already had powers to deal with that. The issue has been defined as a boardroom culture issue. I question whether that is accurate. In fact, it is a consumer and regulatory issue.

Claire Perry: I might approach the answer in this way. Since 2010, we have seen an explosion in the number of energy companies coming into the market. We have seen all sorts of new pricing structures coming into the market, particularly around fixed-price beneficial deals. In a way, I suppose that has highlighted the long-standing pricing structures of some of the incumbents. That is seven years ago.

You could argue that the regulator has encouraged more competition in the market, which is good. As a result of that competition, we have realised that there is some persistent detrimental behaviour with the most loyal customers. We are now giving it powers to deal with that. Whether it has done it fast enough is a legitimate question. I would be very interested in the Committee's view on that. We will now have a period of time where we can absolutely hold it to some very explicit requirements and get it to perform.

Q458 Chair: Can I come back to Peter Kyle's earlier point about the timetable for removing the cap? Up until 2023, the regulator will give a recommendation to the Secretary of State about whether the cap should continue for the year ahead. That seems sensible to me: that Ofgem makes the recommendation but the Secretary of State makes the decision. What is the rationale for having 2023 as the sunset clause? Is there another argument that, instead of that, you do not have a sunset clause but every year you ask Ofgem to make an assessment and give it to the Secretary of State, and let the Secretary of State make that decision?

You said, if by 2023 things do not seem to have improved and there is a need to continue, you could legislate again. You know, Minister, and we



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all know that taking legislation through takes time. I just wonder whether you have considered not having a sunset clause but just enabling Ofgem to make that recommendation every year, and then the Secretary of State deciding, rather than getting us in a situation where, in 2023, the cap goes, no matter what, and we potentially have to come back for another bite of the cherry with legislation.

Claire Perry: My sense is it is a reasonable period of time to do a reset, not a replacement model. We are not suggesting that Government is in the business of setting energy prices over the long term. We are suggesting that the market needs a reset to push it in the direction of travel where it is going, where we have a healthy set of competitors and want them to behave in a more consumer-friendly way.

You could argue that it could be four years, but this became a sort of consensus, if you like. People said, "We do not want a permanent Government intervention in the market, because we do not think that is required". People said, "We want this to come into place hopefully by this winter, to operate, and then to give us the option to renew". Do you want to comment, Dan? Presumably you were there during the negotiations.

Dan Monzani: There are two approaches to making this market work that the Government have been wrestling with. There is making the market work through more engagement, smart meters and so on, and there is the protection element here. The balance that is struck in the Bill is to put in place a deliberately temporary cap, so that there is time for all those interventions to make the market work effectively for everyone in the market, rather than, as seems now, having a split market. It works well for a number of people, an increasing number of people, but there are others who are paying a lot more for their loyalty than they should be.

Q459 **Chair:** Our Committee will report back with our thoughts on the legislation. I would just say, if there is going to be a sunset clause, it is very important that we use these four years. Ofgem is going to take action and implement the other CMA recommendations over the next few years, which will hopefully improve engagement and switching rates. We should not say, "We have put this in, so we do not need to worry about it now until 2023". We have to make changes in the next four years, so we do not go back to what we have now, which is a failing market.

Claire Perry: We have to march forward on all these fronts. Yes, absolutely right.

Q460 **Stephen Kerr:** Why 2023? You mentioned it could be four years. It happens to be more than four years. Why 2023?

Claire Perry: It was considered to be short enough that there was not a sense that Government was now in the business of setting energy prices, but long enough to get the change in behaviour to happen. Also, as the Chair said, we have a number of targets around smart meter rollout by 2020. There are other big shifts that will be happening in parallel with



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this. There is a sense that you have enough time then to have those things working through, supporting the move to a more competitive market, but you have given yourself time to say, "No, this is not good enough and we want to keep doing this for one more year".

Q461 Stephen Kerr: You mentioned the smart meter rollout. Part of Clause 6 in the Bill requires Ofgem to take the progress of the smart meter rollout into consideration in recommending to the Secretary of State the need for a price cap. It is a happy coincidence that it is 2023 in both cases. Are we saying that smart meters will increase the levels of switching in the energy market?

Claire Perry: It is a really interesting question. I was just checking the latest rollout of smart meters. We are up to 10 million, I think, with the latest data. The view is that smart meters are an enabler, not a determinant of switching. I had a very early dumb meter really, an OWL. You could check your energy consumption, and that was really interesting, because you could reduce your consumption. We have not talked at all about energy efficiency. That is perhaps a separate topic, but it enables households to cut the cost of the energy they are using, the consumption.

It is clear that, with a smart meter where you are more informed, it is easier to transfer your data around, that is an enabler for switching, particularly if we get the midata programme going ahead. It is not a complete determinant. There will be lots of people who have smart meters who think that they are on a decent tariff and decide not to switch. It is incredibly important, though, for the other parts of the energy revolution that we want to see: half-hourly billing, people not paying on direct debit so the companies are sitting on your cash. Turbocharging that programme is very much on my agenda.

Q462 Stephen Kerr: Is what you have just said based on an assumption around behaviour changes because of smart meters, or is there research that you are working off?

Dan Monzani: There is some early evidence on this. Obviously the smart meter rollout is not complete, so it is a partial shot of those who have a smart meter so far. The initial evidence shows that 23% of people with a smart meter are engaged and active in the market, compared to 17% without, so there is a bit of a mark-up.

Q463 Stephen Kerr: Do you have switching numbers for people who have smart meters?

Dan Monzani: Not to hand. I can see if we can provide those outside.

Claire Perry: I am happy to write to the Committee.

Chair: That would be very helpful.

Dan Monzani: The second part is also interesting: smart meters enable innovation in the market, more innovative tariffs and so forth. In some



local pilots, where people have trialled dynamic time of use tariffs, enabled by those half-hourly settlements, something like 95% of the people involved have managed to save money on their bills. There are two steps here. There is the initial engagement, but also the enabling of innovation in the market.

Q464 Stephen Kerr: Is the inclusion in Clause 6 of the requirement for consideration of the smart meter rollout, in determining whether there is a need for a price cap, saying that smart meters will be enough to fix the broken market?

Claire Perry: No. Again, it is part of the package of measures, including increased consumer engagement, working with the sticky consumers, that we would expect Ofgem to take into account. I have read some of the evidence suggesting that, if we introduced a cap, levels of investment by the companies in smart meters would go down. I reject that, because it is a condition of their operating licence that they provide the smart meter rollout and fund it.

This is a journey that we are on. It is incredibly important. We want to accelerate the smart meter rollout and give consumers the power to do much more interesting things with it. It is a precursor to many other innovations in the market, but it is not the only measure that will fix a broken market.

Stephen Kerr: There is so much more we could say about smart meters, but we are not here to discuss this.

Claire Perry: They are a great topic.

Q465 Drew Hendry: You have talked about the price cap as a mechanism to reset the market. Ofgem has told us in evidence it has given to this Committee that there will always be vulnerable consumers who do not engage in the market. Do you agree with Ofgem that there will always be a need for price control protection for vulnerable customers when the cap is lifted?

Claire Perry: Yes, I do. I welcome Ofgem's proposals to roll out price protection to an additional cohort of customers next winter. I also welcome the measures, through the various digital Bills, to improve the information gathering. With my ECO hat on, at the moment it is quite hard in some cases to find the right proxy for vulnerability. We could be smarter about that, with this project and others.

Q466 Drew Hendry: What additional protections will you propose for vulnerable customers?

Claire Perry: The rollout that Ofgem has done to, I think, 1 million customers, which has extended the PPM price cap to those customers, has, we know, saved those households £60 a year on average. That is very welcome. In my understanding, it is now consulting on extending



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that cohort, using some different measures for next winter, which is very welcome.

I go back to the fact that there are groups of consumers who are not necessarily qualified as vulnerable who are not availing themselves of particularly good energy tariffs, because that is just not the way that their utility bills are functioning and divided. I am struck by young renters in particular. It is really important that we protect the most vulnerable customers, we use what measures we have, but this is why the price cap is a very workable solution. It protects those who would not ordinarily score as vulnerable but are overpaying in the market.

Q467 Drew Hendry: You mentioned groups of consumers who find themselves, in special cases, as vulnerable. There you are talking about young renters, for example. There are also groups of consumers in places like the Highlands and Islands and other rural areas who are affected by additional prices, because of things like transmission costs and unfair distribution charges. What do you intend and when do you intend to do something about that inequity?

Claire Perry: As we know, there are already some measures in place, particularly around the hydro rate, if you like. Forgive me if I have the wrong terminology. The cap will be regional, so the price cap will be set on a regional basis.

Q468 Drew Hendry: With respect, that measure you discussed there does not deal with the problem of the 2p to 6p per unit that people pay extra in those areas. There must surely be some solid commitment to deal with that once and for all.

Claire Perry: That is not the intention of the Bill.

Drew Hendry: No, I understand that.

Claire Perry: I am very happy to discuss that in other meetings.

Q469 Drew Hendry: Will you come back?

Claire Perry: If the Committee wants to review that as a special topic, I would be happy to give evidence.

Drew Hendry: I would like to review that.

Q470 Chair: Minister, maybe you could come back with some further thinking on Drew Hendry's question. I know it is something that matters a lot to his constituents.

Claire Perry: Of course.

Q471 Rachel Maclean: We have talked about protection of vulnerable customers. In your view, is it also fair and right that the people who will also benefit from this price cap are people like the Secretary of State, and perhaps other colleagues and Members of Parliament, who potentially would see lower prices? It could be argued that we are not vulnerable.



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We just cannot engage in the market because we are time poor, we do not choose to, or it is not a priority for us. We will possibly see our bills coming down.

Is that right, because then there will be less money for those energy companies? They will be making lower profits from people like us. That money could have been used to invest in energy efficiency measures and other matters to improve the energy market for all customers. In your view, is that fair or right?

Claire Perry: Just to update the Committee, the Secretary of State has switched supplier. I was careful to check my facts. I have switched twice.

Chair: We will write a letter of congratulations to him.

Peter Kyle: Is that your first victory?

Claire Perry: It was pre my time, Mr Kyle. I would be interested to know how many of the Committee have switched.

Rachel Maclean: I have.

Chair: Rachel Maclean wins points for this.

Claire Perry: There is a valid point. Are we trying to protect the lazy, as some people have put it to me, or the vulnerable? We are not trying to design a perfect world. I go back to the fact that, if you look at consumers, 35% of those whose household incomes were above £36,000 had switched in the last three years, compared to 20% of those who were below. On customers who had never switched, 45% of those aged 16 to 34 had never switched, compared to 30% of those aged 35 to 64, and 56% of respondents said they had never switched supplier, did not know if it was possible, or did not know if they had done so. I might suggest that, even if any time poor people in Parliament had not yet found the chance to do it, they would know that switching was available.

My sense is that you will never be able to persuade everybody to switch. While you could argue that the tariff is capping prices that everybody pays, including some of those who have not found the time, it is disproportionately benefiting those who are most loyal and who, by inference, are less well off, less educated. That is why it is so important.

Q472 **Rachel Maclean:** You accept that as one consequence, even though it is an unintended consequence. It is acceptable in your view.

Claire Perry: The evidence from the PPM extension suggests that all consumers will benefit from a price cap. Of course, this is not a target. You would hope there would be significant competition below the level, so all consumers will benefit. If you believe in markets serving consumers, by nature that has to be a good thing. I would be very interested in the Committee's report on this point.



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The evidence is that this should not interfere with investment in the market. We have a well-capitalised market. The smart systems report suggests that the market is adequately capitalised for the new challenges for the electricity sector. We know that companies have to deliver smart meters through their licensing arrangements, so that should not be part of the additional capital call.

Q473 Albert Owen: Going back to Drew Hendry's important point about people living in certain areas of the country, periphery areas in particular, they are not on the gas mains. When we talked about the differential, I think you used the figure of people who have dual fuel as a comparator. There are lots of people who do not get that. They might not be vulnerable, they might not be on prepaid meters, but they are certainly paying too much for their energy, and they are not covered.

This cap may not do anything about that, but do you have any plans to look at those? Some of them may be vulnerable and some not, but because they are paying for oil and gas that fluctuates differently. It is a different market. When they pay for electricity, they do not get the benefits that dual fuel customers do.

Claire Perry: That is true. Like you, Mr Owen, I represent a very rural constituency. We know we have 4 million households who are off the gas grid. As I remember from giving evidence on the clean growth strategy, our intention is to provide ways to help those customers get away from burning heating oil in a cost-effective way, and to target innovation at that. My understanding is that customers who are on single tariffs for electricity, like you and I—I have heating oil, unfortunately—will benefit from this, because the cap will apply to electricity and gas separately, as well as through dual fuel. There will be some benefit.

Q474 Albert Owen: Possibly not in the same way, to the same extent. Dual fuel already gets a bonus by being dual fuel customers.

Claire Perry: Yes, I agree. There has been evidence around the heating oil market, suggesting that it is reasonably competitive as well.

Q475 Albert Owen: I understand. I am pleased you answered that, because I would not like them to fall through the gaps.

Claire Perry: It is very important. Being off the grid for heating is a problem for many of us and many of our constituents, from a cost and carbon emissions point. Heating oil is quite cheap at the moment, but several years ago it was extremely expensive.

Albert Owen: It fluctuates, absolutely.

Claire Perry: People were not filling up their tanks, despite all the shared purchasing schemes happening in my village.

Q476 Albert Owen: For my final point, I do not think we need to go through another CMA or OFT inquiry. You are aware of them. As a department, can you work with Ofgem to make sure that those get better protection?



Claire Perry: I will take that away. Thank you, Mr Owen.

Q477 **Antoinette Sandbach:** Minister, in your evidence earlier, you said that you have been reading the transcripts of these sessions, so you are obviously aware that three of the big six have made changes to try to move people off standard variable tariffs. Are the changes made by Centrica, E.ON and SSE sufficient to make a cap unnecessary?

Claire Perry: They are welcome, but they are not sufficient. I am trying to dig out the graphs. If you look at the range of tariffs, I think I am right in saying they are still broader among the big six. We also have the most loyal customers still sitting in the big six. Did you want to correct me?

Dan Monzani: Some of the big six have very high proportions of their customers on standard variable tariffs. Across the market as a whole, the number of people on standard variable tariffs has come down a little since the CMA. We have seen 2 million of the 17 million identified on SVTs switching since then. Even after the additional cap, that still leaves 12 million people on unprotected SVTs now. It is changing, but it is not changing that rapidly.

Q478 **Antoinette Sandbach:** The smaller electricity companies and new entrants have said that competition is being skewed, because the lowest tariffs being offered to switchers are subsidised by the enormous rates of sticky customers. Given that these changes have been made already by three of the companies, why is more not being done to encourage the others to have more engagement with their customers, and to identify those sticky customers who have been on SVTs sometimes for years?

Claire Perry: That is part of this package of remedies: the trial being done around customer engagement, the extension of protection to the most vulnerable, some of whom are in that group. Again, this is a package of measures, some of which are being brought forward, some of which, in this case with the price cap, we think are necessary to help the market reset. When we come to the test for whether we have a competitive market that is functioning, these should all be part of the analysis.

Q479 **Antoinette Sandbach:** Are you engaging with the regulator to say, "Why are these issues not being addressed?" This does not need legislation. It is quite clear that three of the market companies, the big six, can do it now. It is clear that, even with the limited steps that they are taking, they are still not addressing their longest, most loyal customers. For example, SSE, I think it was, has said that it will no longer automatically roll over customers whose fixed-term deals come to an end on to an SVT. But they are not dealing with the 2.8 million customers, I think it is, who are currently on SVTs.

Claire Perry: This is why the legislation is necessary, because you are capping the level at which those SVTs can be pitched. That reduces the profitability of those customers who are paying the most detriment and forces companies to think more intelligently about their pricing and



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marketing strategy. It provides a temporary boost to drive behaviour in the right direction.

Q480 Antoinette Sandbach: We also heard evidence about one of the new entrants contacting its customers every month. Minister, I wondered how often your and Mr Monzani's electricity companies have contacted you.

Claire Perry: It emails me. I am with npower now. I switched on to a fixed tariff and it emails me because I still have to read the meter. It emails me for that on a monthly basis. I seem to have quite a lot of emails from npower in the year.

Q481 Antoinette Sandbach: Do you think it has spotted who you are?

Claire Perry: After this session I shall be anonymous no more. There are two things. I found switching through a third-party comparison site incredibly easy. It was very surprisingly easy, because the companies did all the legwork. Yes, it took too long, and we know now we want switching time to come down to next day. It is currently at about two weeks. There is lots of progress to make there and data sharing will help.

Interestingly, I am quite keen to get a smart meter and they are not available for rollout in my area yet. In my rented London property I could get a smart meter, but it is really hard to work out a time when I could be in to see the engineer. This is why the smart meter programme, which is going well and rapidly transitioning to SMETS 2, really needs a turbo charge. To me, this is an incredibly important way of giving people lots more control over their consumption of energy.

Q482 Antoinette Sandbach: What about Mr Monzani?

Dan Monzani: It is bit unfair to judge. I switched most recently at Christmas, so I am only just through the switching process. I am sure it will be very prompt at updating me.

Q483 Antoinette Sandbach: I switched to a company two years ago, and I have been checking my engagement with the company, Green Star Energy, that supplies my energy. It has contacted me on my phone once, but its email contact has been extremely irregular. I am currently mimicking all the signs of a vulnerable customer, which have not been picked up on yet. Maybe after this evidence session they will be. It is really concerning that there seems to be no safety net within companies around a lack of engagement with their consumers. That is not something that is going to be addressed by the price cap, is it?

Claire Perry: We discussed that evidence of better treatment of loyal customers, either through less detrimental pricing or better customer service, is something we will be able to see and measure. There is a competitive tension in all industries, is there not? For me, power and energy is something a little bit different. Also, loyalty should be rewarded in the corporate world.



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Dan Monzani: It is right that we need to continue measures to try to engage people, as well as having the protections here. To give a couple of examples, the CMA recommended a few things that might be worth testing to see whether or not they boost engagement. Ofgem has changed licences to require those pilots, things like changing the name of a standard variable to an emergency tariff, so it looks like something you do not want to be on necessarily, and other ways of trying to engage consumers in the way you are picking up. It is imperative those things are implemented in parallel with the protections in this Bill.

Q484 **Antoinette Sandbach:** If all those steps were taken, would the cap become unnecessary?

Claire Perry: It is a very important question. If we introduced the tariff this winter, the first point of review would be October 2020, so the tariff would be in place for less than 24 months, with the option to review. If you had a very rapid change in customer treatment and pricing, you would argue that, within two years, Ofgem would make a recommendation that the cap no longer needed to apply.

Chair, you asked the question about the message for consumer markets. That desire to reset, particularly in regulated utility markets, in an intelligent, interventional way, rather than a long-term management way, will be a test of how well this legislation works to drive the changes we want.

Q485 **Antoinette Sandbach:** Finally, you spoke about rural customers. I do not know what rural broadband is like in your constituency.

Claire Perry: They have a very effective local MP, so it is much better. I am sure the same is true in yours.

Antoinette Sandbach: Mine is improving.

Claire Perry: I cannot believe I just said that.

Q486 **Antoinette Sandbach:** Mine is improving after sustained pressure on Connecting Cheshire. One of the issues with smart meters is that accessibility. I have to say the mobile signal is appalling in my constituency. There is a real issue around smart meters, about whether or not there will be areas that are not covered by them.

Claire Perry: Not-spots.

Albert Owen: Is that for mobile connections?

Antoinette Sandbach: Mobile, yes. It is hopeless. We are 2G in half of my constituency. Personally, I think this Committee should be looking at mobile.

Claire Perry: I apologise for my idle boast. We are at 91% penetration of high speed. Wiltshire Council has done a good job, but I still have not-spots for broadband, and there are obviously solutions there. The topography of it makes the mobile signal very difficult. I agree: if we



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want a joined-up utility system, provision of really excellent internet access, whether it is fixed or phone, is absolutely crucial. We have a very active new Secretary of State, who I know will continue this rollout.

- Q487 **Antoinette Sandbach:** Can I ask you to liaise closely with him? Clearly, consumers in that last 5% are very often in the areas that have higher network costs, for example north Wales and Scotland. I would not say parts of Cheshire, but, when you look at the topography of Cheshire compared to north Wales and Scotland, providing broadband should not be an issue. Can I ask you to liaise on a cross-departmental basis? Can I ask you also to look at rural households and how they qualify for energy efficiency measures under the ECO scheme?

Claire Perry: Yes.

- Q488 **Antoinette Sandbach:** It seems to me that fuel poverty needs to be looked at in the off-grid circumstances mentioned by Albert Owen. There is a real concern that those rural households on electricity-only are missing out on many of the deals that are being offered by suppliers. Again, that is not something that is going to be addressed by the energy price cap.

Claire Perry: Thank you for allowing me the opportunity to mention ECO, which I am happy to come back and give evidence on. My intention is to make ECO 100% focused on dealing with fuel poverty. I think about 40% of fuel poverty occurs in rural areas. Many of the homes in rural areas are not suitable for treatment with conventional measures such as cavity wall insulation, or indeed double glazing.

We are looking at how to make ECO work. We have protected the funding for it. We want to, for example, allow local authorities more discretion over how that money is spent, so it is working in rural areas on the hardest to treat properties. For me, if we have a manifesto ambition to eradicate fuel poverty, we should be using ECO as a mechanism to drive that.

- Q489 **Vernon Coaker:** At one of the last sessions Dermot Nolan made what I thought was quite an astonishing point. He said that, because of the exemption within the Bill for the new green energy tariffs, there was a real possibility that some suppliers would try to game—that was the word he used—in some fashion. There are a couple of things from that. Are the Government going to close that loophole, or what are they going to do about it? Secondly, do you agree it is a concern that some suppliers may try to game the situation, in other words to try to get round the Bill? That is essentially what he is saying. Do you agree with that?

Claire Perry: I see the potential risk for it. This is the reference to condition 21D.4(a) that there is an exemption. We have never asked Ofgem to be particularly diligent in assessing whether tariffs meet those conditions, because, arguably, it has not had to in such a sharp way. We can ask Dan, but my sense is that it will have to focus on that. If we put all these conditions in place and we find out in two years' time that the



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companies have gamed the whole system and brought in a bunch of tariffs, that does not look terribly good from a regulatory perspective. Running the slide rule over the existing and proposed tariffs will be important.

I have to say that the worst thing the energy companies could do would be to start gaming the system. The level of scrutiny now on the market, from Parliament, consumers and consumer groups, is so high that, while I understand there is a theoretical risk, I personally do not think it is one that will come forward. I want to keep those tariffs where people can make an active choice; they are really important to have. Dan, do you want to comment on the risk?

Dan Monzani: The risks of gaming more generally, but particularly in this area, are something we need to be cognisant of now, but also keep an eye on as the market evolves. It may well be that people try to exploit ways of doing things that we have not anticipated. We will remain vigilant throughout and work with Ofgem on that. We will want to listen to its views and the views of the Committee when we bring that forward.

Q490 **Vernon Coaker:** I hope I am speaking for everyone: it is fair to say we agree with environmental tariffs and decarbonisation, and trying to encourage all that. For us, it is when you have the regulator saying, "We may have a situation where some suppliers try to game the situation". I thought that was quite astonishing. Clearly, the regulator, as I think Antoinette Sandbach was saying earlier on, will need to be on top of that. Minister, what you have just said is really helpful, because I am not sure they would not do it. If I am honest, it never occurred to me that anybody might try to do it. The regulator is saying there is a possibility.

Claire Perry: I would be very interested in Committee advice on this. We have a Bill that we think covers all eventualities. If there is a view from your advice and scrutiny that we need to ask for some level of transparency, or some level of reporting, we will be very receptive to that. We all want to make this work. I personally do not believe companies will, because of the direction of travel. Transparency is a great disinfectant of all sorts of corporate behaviours. We would be very interested in your advice and thoughts on that.

Vernon Coaker: Yes, and we need to consider what it means to be a green electricity tariff or a green tariff.

Q491 **Chair:** Might it be possible, within the legislation or elsewhere, to define what a green tariff is? If somebody wants to put a customer on it, it needs to meet certain minimum threshold criteria.

Claire Perry: Chair, I might suggest we go away and look at what the underlying conditions are, to see what the definitions are. We are referencing another Bill in this clause. We can see if the definition is clear enough and, if not, try to clarify it in drafting.

Chair: That would be very helpful, Minister. Thank you.



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Q492 **Vernon Coaker:** It would, yes. Thank you. Turning to another matter, the prepayment meter cap, people have looked at that and wondered whether it tells us anything about the cap that the Bill intends. On that, are the mixed switching rates and the price conversions, some of which we have seen under the prepayment meter cap, a price to pay for protecting those on the highest tariffs?

Claire Perry: Do you mean the potentially reduced switching?

Vernon Coaker: Yes.

Claire Perry: I will ask Dan, but my sense is that the data on this is not clear. Also, it is relatively early in terms of the extension. It may be that there are other factors in that group relating to switching rates. Potentially these are people who are less engaged with the market, so I am not sure that is perfect. I was going to talk about that.

The result of that is that prices have fallen in the market. If you were to say, "There is slightly less competition, but prices have fallen", is that a good outcome for consumers? Arguably, it is. Again, this is why we are not picking one measure to define what success looks like. We need to ask Ofgem to pay attention to a broad range of measures.

Dan Monzani: We do not have switching data specifically for the PPM customers at the moment. We can observe there has been no obvious change in the overall rates. It is a risky inference from that that there are not two effects going on, but there is not some obvious cliff edge in the rates that could be attributed to PPM. Such convergence as we have seen is largely people converging down to the cap, in almost all cases. That has been a saving of about £80, as the Minister said.

Q493 **Vernon Coaker:** It is interesting. I understand the point that it is mixed evidence around the switching rates. The regulator said, in terms of the price that people were paying, the majority of both lower and higher prepayment prices have converged to the cap threshold. That means that some prepayment customers actually experienced a tariff increase as a result of the introduction of the cap. The crucial thing is on average, is it not?

Claire Perry: Yes.

Q494 **Vernon Coaker:** As you say, on average, prices fell by £60. Have you made any assessment of the numbers of people who have had to pay more as a result? Do you see what I mean, the average? Some has to come down and some has to go up to get the average. Have you done any comparison of the figures for that? I will just finish the point. We have been trying to understand this as a Committee. Some people have said this is what would happen if you had a market-wide cap.

Dan Monzani: We do not have the numbers on people. We are only aware of one supplier whose prices went up after this. The majority of them were converging down.



Claire Perry: How many suppliers are on the market?

Q495 **Vernon Coaker:** Do you know the numbers of customers?

Dan Monzani: I do not know the number of customers. There are 53 suppliers supplying PPM tariffs, including white-label customers. As you say, on average across the market there was a saving, and there remains a saving for those who switch.

Q496 **Vernon Coaker:** I understand the average saving, which is significant. I was just wondering about the numbers up and down. Do you have any assessment? Do you have that in the department?

Q497 **Chair:** Could you come back to us with those numbers?

Claire Perry: Yes. We will send you the PPM data we have. We could certainly ask Ofgem if it has data on numbers of customers whose tariffs went up.

Vernon Coaker: Yes, that would be helpful. Thank you very much.

Q498 **Drew Hendry:** Minister, Dermot Nolan told us in November that, in order to identify and protect vulnerable customers, legislative barriers to data sharing between Government-held data and energy suppliers needed to be removed. Last week, he told us that he was liaising with the Government on the introduction of secondary legislation that would enable DWP data on vulnerable customers to be shared with suppliers. He said he did not know when that would be done. When will the Government remove the obstacles to sharing DWP data on vulnerable customers with energy suppliers?

Claire Perry: I am sorry, I do not know the scheduling of that piece of SI, but I am happy to go away and try to find out. We have some overall changes in the Digital Economy Act, but, on these pieces of SI specifically on the DWP, I am afraid I will have to write to the Committee on that, unless you know the answer, Dan?

Dan Monzani: I do not know the precise date, but we are actively working on it to bring it forward as soon as possible.

Claire Perry: We have to do the two things together. To the extent we are very committed to getting this Bill into law in order to make this overall set of market changes work, I would say that we have to get on with it. I am afraid I do not have the Bill scheduling timetable.

Q499 **Drew Hendry:** Can we expect it to be done before the end of the year, when a further 2 million customers are supposed to be protected?

Claire Perry: I will happily take this away and have a conversation with the parliamentary team and the powers that be in terms of the SI legislation scheduling. For me, it is a crucial part of the mix.

Q500 **Drew Hendry:** I have one further thing on data sharing. Right at the beginning you mentioned the need to identify loyal customers with the



data. How much data are you intending to collect on customers and use? What protections are you planning to put in place so that people understand exactly what the purpose of that data is? For example, there will be some people who are not vulnerable but are loyal customers. Will you be collecting that data on them?

Claire Perry: It is a really important question and we had this on the Digital Economy Bill Committee. The balance all the time is between personal data protection and the benefits that data sharing brings. As always, we will be trying to strike the right proportionate balance. It is permissioned sharing, as I understand it. You choose the supplier and give permission to share your data. It has to be proportionate and we have to reassure people that their data is not being hoovered up without their consent.

Q501 **Drew Hendry:** Finally on that, going on what you have said just now, will you look at giving an explicit ability for a customer to own their own data?

Claire Perry: Is that an Ofgem power or a Government power?

Dan Monzani: Effectively, it is the midata programme, which we have consulted on. We are looking at ways to bring that forward as well. There are two types of data sharing, both of which we are actively pursuing at the moment. Midata allows you to require the supplier that holds your data to share that data directly with third-party intermediaries. That helps the switching process and of course your own awareness of your consumption patterns.

Claire Perry: On the point about the DWP data sharing with Ofgem, it is to identify the most vulnerable customers. I will have to write to you, Mr Hendry. I know that we had these conversations in the Digital Economy Bill about the need to do this. It also helps us with ECO. I am afraid I cannot remember the exact wording of the protection provision. I will happily write to you.

Drew Hendry: Thank you. I will look forward to your letter.

Q502 **Mark Pawsey:** When the Secretary of State was before us, he spent a lot of time talking about the £1.4 billion per year detriment to consumers. We have not heard quite so much from you on that, Secretary of State. Is it intended that the cap would be set at a level to eliminate that in its entirety, or could there still be some residue? I take it you are comfortable with the £1.4 billion per year as being the amount by which consumers are disadvantaged.

Claire Perry: That is the CMA figure. To me, again, this is why having an absolute number is not helpful. We need to ensure that there is continued flow of investment into the industry. Gross profit is a crude measure, but—

Q503 **Mark Pawsey:** That is the point I wanted to move on to. Essentially, you



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are saying that £1.4 billion a year that is currently paid by consumers to suppliers will no longer be paid by consumers. Consumers will be better off by £1.4 billion, but, crucially, the industry will have £1.4 billion per year less income. Have you any concerns about the industry having that much less income? Are there any concerns about investment and perhaps the viability of some of the smaller suppliers?

Claire Perry: They will be that much worse off in terms of revenue, but of course the opportunity to cut costs to drive up income is still there.

Q504 **Mark Pawsey:** Do you think there is that much slack in the system?

Claire Perry: There is definitely evidence of inefficiencies in the system. There is definitely evidence of companies who have less competitive tariff structures having less efficient operations too. There are opportunities in the system. We would expect to see that detriment level coming down. Would it approach zero? That would be a matter for Ofgem's recommendation.

Q505 **Mark Pawsey:** Do you think there might be some danger that smaller suppliers would be no longer able to continue? Do you see some fallout from the decision? We have encouraged lots of new suppliers in recent years. Is there some danger they might fall by the wayside?

Claire Perry: It is really important that we have operators in this market that are well capitalised and there for the long term. We have a lot of new entrants. We have licensing conditions that have encouraged a lot of new entrants. For me, part of the customer service is that you intend to be there as a service provider for the long term. I would not want to speculate on the market structure going forward. Ofgem in particular is mindful of the demands of investment the system will require going forward, as we transition to electric vehicles. It has assured us that the investment plans for the industry, and particularly the grid side of the industry, where most of the investment needs to go, are adequate.

Q506 **Antoinette Sandbach:** I wanted to come back to the customer switching experience. Minister, I doubt you have had the opportunity to read the reports of the previous Committee, the Energy and Climate Change Committee, on switching, and particularly the issues that were flagged up around trust. What are you doing to increase consumer trust in the switching process?

Claire Perry: I am afraid I have not read those reports. It is important that Government continues to work with industry, and with organisations like Citizens Advice, which have been brilliant in this area, to help people understand the benefits of switching and reassure them about the process. We have the Big Energy Saving Week, which is next week, I believe. We will be giving £1.6 million of funding to Citizens Advice and others in order to promote the Big Switch, so we continue to promote switching. Do you want to comment on the element of trust of suppliers, Dan?



Dan Monzani: Obviously different suppliers have different levels of trust. Some parts of the market are less trusted than others, so competition on that basis is a valuable thing. Some of the moves to speed up switching and make it more reliable help. Smart meters have a role to play here, because of the reliability of your billing. One of the problems with switching sometimes is that the final bill comes as a bit of a surprise, whereas smart meters allow that to be a more accurate billing process.

Q507 **Antoinette Sandbach:** The problem with the SMETS 1 smart meters is with many of them, if you switch supplier, your meter becomes dumb and is not smart. Do the smart meters not effectively prevent switching, if you want to have access to that data?

Dan Monzani: It is true that, if the SMETS 1 customers switch, which they can of course, for the time being their smart meter will not communicate with the central hub. However, they still get the benefits of having the in-home display and the information about their own usage. That is very important for the engagement with the market, indeed the basis on which the impact assessment for smart meters is written. We are now moving to SMETS 2, but there are also steps underway over the next few years to increase the number of SMETS 1 customers who are able to connect into that central hub.

Q508 **Antoinette Sandbach:** Has the SMETS 2 technology actually been approved and is that all now being rolled out?

Dan Monzani: I do not know exactly where we are in that process, but that is the direction we are moving in.

Claire Perry: It would be very interesting to give evidence on smart meters when we have got a bit further along in our understanding—my understanding, I should say. The team understands it perfectly. The suppliers were all going in different directions on smart meters. It is important to recognise that SMETS 1 was a big standardised step forward that was not the direction of travel of the industry. That enables us to give consumers the benefit of that knowledge. Also, these meters can be retrofitted, as the SMETS 2 programme rolls out. It is good that we will end up with a standardised system that will have interoperability, which is a much better place than where we were heading before the meter rollout.

Q509 **Antoinette Sandbach:** It is clear from last year's state of the market report that, in terms of the switching process, 26 million switch requests were submitted to the network operators, but only 22.6 million switches actually happened. There is a clear gap. Maybe that gap is around trust issues, where the process does not work, where it is not happening. That is 4 million consumers. That is quite a high number.

Claire Perry: The switching process is quite opaque. At the moment you get the reassuring email—"Do not worry; we will take care of it"—but then it is a while before the switching actually kicks in. There is that sense of: "I have your data. Thanks to midata, I can tell you what the



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tariff is going to be. You do not have to read the meter and, bang, welcome to our new company that rewards loyalty". That is what you would want to see by 2020.

Q510 Chair: Thank you, Minister. Finally, before we wrap up, I will come back to this issue around vulnerable customers. The Cabinet Office did a consultation around data sharing, access to data, data sharing codes and regulations. We have been waiting for a Government response to that since the beginning of November. Perhaps you could talk to colleagues at the Cabinet Office, because before you introduce any SI I think you need to respond to that consultation.

It would be good if that could happen, and then we can hopefully make progress in this really important area that the Committee has taken evidence on and is very keen to see progress on. Certainly, I have a number of constituents who come to my surgery with problems with, for example, debt or benefits. You talk to them about their energy bills and very few of them are aware that they are entitled to support from their energy company.

We can then go about getting that support, but it is not something that they know about. Their energy company has no idea about their circumstances and their vulnerability. This is something that is incredibly important. If you could look to expedite that we would all be very grateful.

Thank you for your time today, Minister. You have obviously got on top of these issues very quickly. We appreciate you coming to give evidence today. We will respond shortly to your draft legislation with the thoughts of the Committee. We look forward to working with you further.

Claire Perry: Thank you, and can I again thank the Committee for its dogged and extensive work? We are all committed. There is a good, solid commitment for the principle of this targeted intervention, and we are very keen that it happens as quickly as possible, so we can put it in place before next winter. Thank you very much.

Chair: Thank you, Minister. Thank you, Dan Monzani.