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Energy pricing and the future of the energy market

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Business, Energy and Industrial Strategy Committee

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Contacts

All correspondence should be addressed to the Clerk of the Business, Energy and Industrial Strategy Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8586; the Committee's email address is beiscom@parliament.uk.

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Summary

Over the last year, an unprecedented increase in wholesale gas prices has placed significant financial strain on the energy retail market. Between July 2021 and May 2022, 29 energy suppliers in Great Britain collapsed. Through the Supplier of Last Resort (SoLR) process, since July 2021, 2.4 million customers were moved from 28 failed energy companies to new suppliers. This is expected to add £2.7 billion (£96 per customer) to energy bills. The Special Administration Regime was used for the first time following the collapse of Great Britain's seventh largest energy supplier, Bulb Energy, in November 2021. The Government's continued support of Bulb is expected to cost at least £2 billion. This may be offset by a sale of Bulb, but the Department for Business, Energy and Industrial Strategy (BEIS) has the power to recover any remaining costs through a levy on energy bills.

The collapse of the energy supplier market could have been mitigated through more robust regulation. Ofgem has proved incompetent as the regulatory authority of the energy retail market over the last decade. It allowed suppliers to enter the market without ensuring they had access to sufficient capital, acceptable business plans, and were run by individuals with relevant expertise. The regulator enabled poorly capitalised suppliers to be overly reliant on customer credit balances and operate with inadequate hedging, leaving the market ill-equipped to absorb wholesale price increases. The rules that were in place were not enforced and Ofgem did not understand the business models of the suppliers it is mandated to supervise. The Government prioritised competition over effective market regulation and overlooked Ofgem's lack of supervision of this essential market.

Ofgem is proceeding with a major package of regulatory reform to address its previous shortfalls and boost suppliers' financial resilience. While we support its vision for suppliers to be well-capitalised and prudently run, we are concerned that if measures are poorly designed and executed, they will risk further destabilising the market and distorting competition. We recommend that:

- Ofgem improves its regulatory oversight, its decision-making processes, the use of its enforcement powers, and the quality of its governance;
- Ofgem proactively reports to this Committee on how it is ensuring effective accountability and transparency and to explain key decisions and policy concerns on an ongoing basis;
- Ofgem regularly reports to BEIS on how it is meeting its duties and to inform Ministers of any risks associated with the delivery of Government strategy;
- the Government publishes its long-delayed Strategy and Policy Statement for Ofgem to clearly delineate responsibilities between the regulator and BEIS to ensure transparency and effective scrutiny;
- Ofgem publishes proposals on a capital adequacy regime and monitors suppliers' risk management strategies as standard;

- Ofgem upskills its workforce to implement its regulatory reforms effectively and proportionately;
- Ofgem publishes a more robust impact analysis of its proposals for suppliers to ringfence customer credit balances and be explicit about the implications on energy bills and competition, and considers the cumulative impact of its reforms; and,
- the Government brings forward legislation to increase the frequency of Renewables Obligation payments and ensures its Energy Retail Market Strategy aligns with its net zero target, rather than a focus on switching.

Ofgem's design of the energy price cap also contributed to market instability and resulted in suppliers subsiding customers; this was not its intended purpose. While the Energy Bill [HL] (2022) included provisions to extend the energy price cap beyond 2023, neither the Government nor Ofgem has evaluated its costs and benefits or considered alternative forms of price protection, including a social tariff. The Government should consider the introduction of a social tariff for the most vulnerable customers and a relative tariff for the rest of the market.

The impact of the energy price crisis on households is ongoing and severe, particularly in the context of the cost-of-living crisis and is likely to cause an unacceptable rise in fuel poverty and hardship this winter. With wholesale prices continuing to rise, the energy price cap is now expected to increase to £3,244 in October and remain elevated thereafter. While we welcome the Government's May 2022 support package, it is no longer sufficient to respond to expected price increases come October. The Government must immediately update its support, targeting this at customers who are on low incomes, fuel poor, and in vulnerable circumstances, and develop a scheme to support vulnerable customers to accelerate the repayment of energy debt resulting from this crisis. The Government should publish its overdue Fairness and Affordability call for evidence, consider moving legacy policy costs to taxation, and assess whether standing charges are appropriate for prepayment customers. Ofgem must work with suppliers, ahead of this winter, to identify vulnerable prepayment customers at risk of self-disconnection and offer to convert them to credit mode to maintain their supply.

Ultimately, the UK needs to reduce its dependence on imported gas. Energy efficiency is the quickest and most cost-effective way to reduce gas demand and lower energy bills. The absence of a home insulation programme is an unacceptable gap in policy that must be rectified. We reiterate our previous calls for the Government to implement urgent, far-reaching, and long-term measures to retrofit the UK housing stock.

1 Introduction

Background

1. The Department for Business, Energy and Industrial Strategy (BEIS) is responsible for setting the wider policy and regulatory framework for the gas and electricity markets in the UK. The Office of Gas and Electricity Markets (Ofgem) is the independent regulator of the electricity and gas markets in Great Britain.[1] Its primary objective is to protect the interests of existing and future customers.[2] It has two key secondary objectives in regulating the retail market: (i) to promote effective competition,[3] and (ii) to have regard to the need to secure that energy suppliers can finance their licensed activities.[4]

2. Over the last decade, action taken by Ofgem to meet these objectives is contextualised by the dominance of the big six or large legacy suppliers, which up until 2015, held a collective market share of 90%.[5] Since the energy market was progressively opened up to competition from 1996,[6] the Government and Parliament expressed ongoing concerns that competition failed to deliver lower costs for customers or drive improvements in customer service and innovation.[7] The overriding priority for Government and Ofgem was to diversify the market and challenge the dominance of the big incumbent suppliers, primarily by encouraging new entry and facilitating switching.[8] This was largely delivered by Ofgem's low bar approach to licensing energy suppliers which resulted in the proliferation of smaller suppliers entering the market after 2010. The market peaked at 70 suppliers in 2018, up from 12 in 2010.[9] By September 2021, new entrants held roughly 40% of the market share.[10]

3. In 2014, the energy market was referred to the Competition and Markets Authority (CMA) by Ofgem for a full market investigation. The CMA published its final report in June 2016.[11] It found that 70% of customers of the large legacy suppliers were on expensive default tariffs[12] and customers were paying £1.4 billion more per year than they would in a fully competitive market.[13] Subsequently, in 2019, the Government introduced the

1 Energy policy in Northern Ireland is largely devolved to the Northern Ireland Executive. The regulation of the energy market in Northern Ireland is outside the scope of this report.
2 Ofgem (2013), 'Our powers and duties,' 19 July, para. 1.3, accessed 16/06/2022
3 ibid., para. 1.4, accessed 16/06/2022
4 ibid., para. 1.6, accessed 16/06/2022
5 British Gas, E.ON, EDF, npower (now part of E.ON), ScottishPower and Scottish and Southern Energy (SSE) (now part of OVO) are often referred to as the 'big six' or large legacy suppliers. In both the gas and electricity markets, their collective market share did not drop below 90% until 2015, below 80% until 2017, and, as of December 2021, it remained at around 60%.
6 In December 1996, the EU Electricity Directive increased the scope for customers in EU member states to choose their electricity supplier.
7 For more information on the range of concerns and interventions that led to the Competition and Markets Authority investigation of the energy market see: *Competition in energy markets in Great Britain*, CBP 7243, House of Commons Library, 1 February 2016
8 Ofgem (EPM0030)
9 Ofgem, 'Retail Market Indicators', accessed 29/06/2022
10 National Audit Office, *The Energy Supplier Market*, 22 June 2022, p 18
11 Competition and Markets Authority, *Energy market investigation: Final report*, June 2016
12 Customers on non-default tariffs make an active choice about their energy tariff, which is usually set at a fixed rate. Customers who have not signed up to a fixed deal are on default tariffs. Customers will automatically move to a default tariff at the end of their fixed deal unless they agree a new deal with their energy supplier.
13 Competition and Markets Authority, *Energy market investigation: Final report*, June 2016. The investigation found that 70% of domestic customers of the 6 largest energy firms were on an expensive default tariff and that these customers could save over £300 by switching to a cheaper deal.

energy price cap to limit the price per unit of gas and electricity that suppliers can charge customers on default tariffs.[14] Ofgem sets the price cap by calculating how much it costs an efficient supplier to provide energy to a customer. The level of the cap is currently reviewed once every six months by Ofgem, to reflect changes in underlying costs, such as the wholesale cost of gas.

The energy price crisis

4. Since July 2021, the international price of gas has become considerably more volatile. By December 2021, wholesale gas prices increased by 500% compared to February 2021 levels.[15] The UK's heavy dependence on natural gas for its energy supply,[16] 40% of which is imported,[17] left the country particularly exposed to price spikes on the wholesale market. Multiple overlapping macroeconomic and geopolitical factors led to this unprecedented increase in price. This included high natural gas demand as economies recovered from the Covid-19 pandemic, low levels of gas storage across Europe, and the Russian invasion of Ukraine, as well as subsequent international sanctions.[18] Unable to deal with sustained price shocks, between July 2021 and May 2022, 29 energy suppliers in Great Britain collapsed, with a combined market share of nearly four million customers (more than 10%).[19] As of May 2022, 24 suppliers were left in the market. Eight suppliers have a market share above 5%, three above 1% and the remaining 13 have less than 1%.[20]

5. Even before the gas crisis started, the majority of energy suppliers in Great Britain were loss-making. In 2020, the margin across the five biggest suppliers was minus 1%.[21] The energy price cap initially protected customers from exposure to price volatility, but its periodicity left suppliers unable to recoup the costs of purchasing energy on the wholesale market. In October 2021, despite the price cap increasing by 12% to £1,277, Energy UK told us that suppliers were subsidising those on default tariffs, sometimes by as much as £700 per customer.[22]

6. Following Russia's invasion of Ukraine, in February 2022, Ofgem warned that Great Britain was entering "a second, more serious phase" of the crisis that would have "further consequences for customers and further financial strain for retail companies".[23] On 1 April 2022, Ofgem increased the price cap again by 54% for 22 million customers. For those on default tariffs, energy bills increased from £1,277 to £1,971 per year and for those on prepayment meters, energy bills increased from £1,309 to £2,017 per year.[24] On 24 May

14 The Domestic Gas and Electricity (Tariff Cap) Act 2018. In July 2018, The Domestic Gas and Electricity (Tariff Cap) Act 2018 received Royal Assent.
15 Ofgem, 'Wholesale market indicators,' accessed 28 June 2022. Energy suppliers purchase energy on the wholesale market and sell it on to customers on the retail market. Gas is also used for electricity generation, so both gas and electricity prices have been impacted by increases to the wholesale gas prices.
16 GOV.UK, 'Digest of UK Energy Statistics (DUKES): natural gas', accessed 14 June 2022. According to the Government's 2021 Digest of UK Energy Statistics gas accounted for 40% of UK energy demand in 2020.
17 *The energy price crunch*, CBP 9340, House of Commons Library, 14 January 2022. The average wholesale weekly price of gas rose between February 2021 and December 2021, from £16 per megawatt hour (MWh) to £92 per MWh.
18 For more information on the impact of Russia's invasion of Ukraine on the price of gas see this briefing: *Imports of energy from Russia*, CBP 9523, House of Commons Library, 14 June 2022
19 National Audit Office, *The Energy Supplier Market*, 22 June 2022, p 6
20 Ofgem (EPM0044)
21 Ofgem, 'Retail market indicators', accessed 22/06/2022
22 Energy UK (EPM0028)
23 Ofgem (EPM0030)
24 Ofgem, 'Price cap to increase by £693 from April', 3 February 2022

2022, Ofgem announced that it expected the price cap to increase by a further 40% to the region of £2,800 in October 2022.[25] However, since then wholesale prices have continued to rise, and on 8 July 2022, industry experts forecasted that the October 2022 price cap could be as high as £3,244, rising to £3,363 in January 2023.[26] This, combined with other inflationary pressures, will push many households across Great Britain into fuel poverty and hardship. Prices are expected to remain elevated for a number of years to come.[27]

7. When an energy supplier exits the market, Ofgem transfers its customers to a new supplier through a competitive bidding process; this is known as the Supplier of Last Resort process.[28] This results in costs for the new supplier, including paying to purchase the new customers' energy and protecting their credit balances.[29] These costs can then be passed on to customers through a levy on energy bills. Ofgem's latest estimate of the total cost to billpayers of the 29 suppliers that failed as a result of the crisis was £2.7 billion (around £94 per customer).[30]

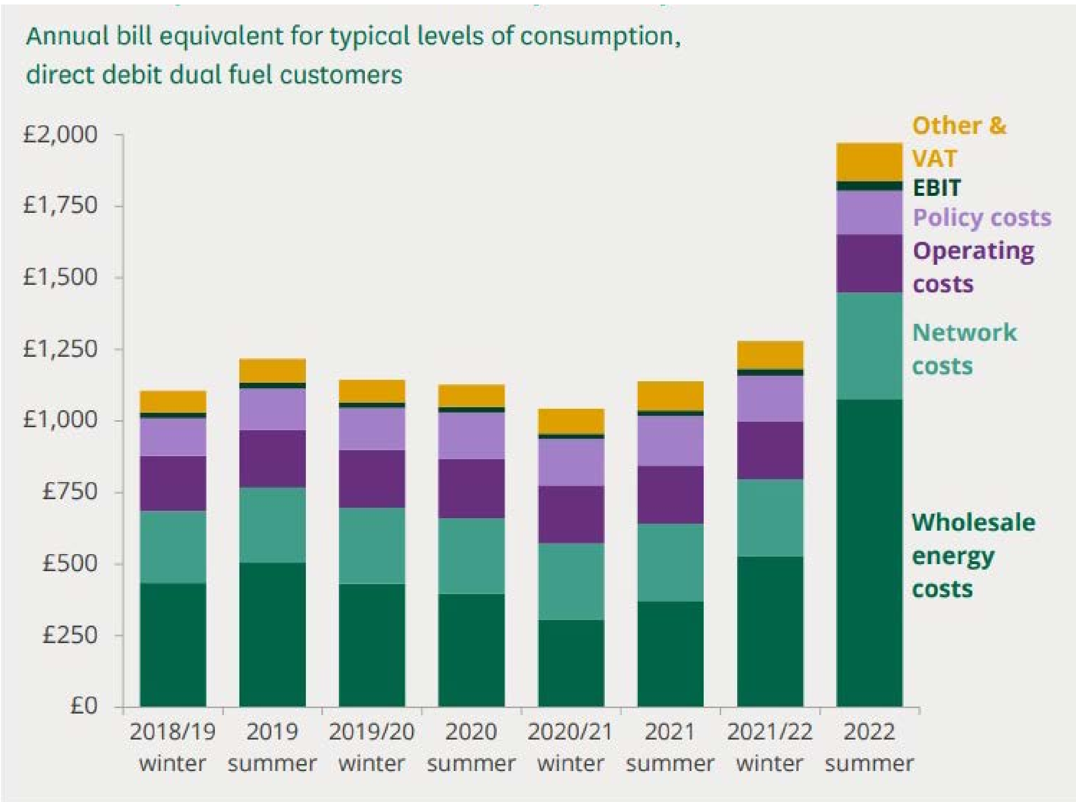
8. If a larger supplier fails, it may not be possible for another supplier to take on their customers at once. In this case, the Special Administration Regime is used. Ofgem asks an administrator to temporarily take over the company and the Government provides the financial backing to maintain energy supply to customers until a buyer is found, or the customers can be transferred to other suppliers. The proceeds of a sale may help recoup the Government's costs but, if there is a shortfall, the Government can choose to recover the costs through general taxation or a levy on energy bills. Bulb Energy, which served around 1.6 million households, was placed into Special Administration in November 2021. The Government spent £0.9 billion in 2021–22 to maintain supply to Bulb's customers and budgeted a further £0.92 billion for 2022–23.[31]

25 Q484 [Jonathan Brearley]
26 Cornwall Insight, 'Default Tariff Cap forecast climbs further as Ofgem announcement looms', 8 July 2022
27 Cornwall Insight, 'Energy prices to remain significantly above average up to 2030 and beyond', 22 April 2022. Energy consultancy, Cornwall Insight, predicted on 22 April 2022 that prices will remain above 2021 levels until at least 2030 as a consequence of closures to nuclear power stations, delays in the commissioning of Hinkley Point C and increasing high-cost peaking capacity.
28 Since July 2021, Ofgem has transferred nearly 2.4 million customers of 28 failed energy suppliers to alternative providers through its Supplier of Last Resort process.
29 Ofgem (EPM0030)
30 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
31 National Audit Office, *The energy supplier market*, 22 June 2022; Department for Business, Energy and Industrial Strategy, 'Main Estimates Memo Annex', Table A (i)(ii)

Box 1: Components of the energy price cap

The energy price cap consists of the wholesale cost of gas and electricity, network costs, supplier operating costs and the costs of government policy which are passed on to customers. It adds 1.9% of revenue for supplier profit (Earning Before Interest and Taxation or EBIT) and 5% for Value Added Tax. Figure 1[32] demonstrates the cost elements that Ofgem has used to set the default tariff cap since its introduction.

Figure 1: Cost components of the default price cap



The wholesale energy cost included in the cap doubled from £528 per typical dual fuel customer in the winter 2021–22 cap to £1,077 in the summer 2022 cap.[33] The summer 2022 cap included an additional charge in the network costs of £68 per customer to cover Supplier of Last Resort levy costs.[34] Overall network cost estimates increased by almost 40% from £268 in the winter 2021–22 cap calculations to £371 in the summer 2022 cap.[35] Policy costs decreased by 4% in the summer 2022 cap, from £159 to £153.[36] The largest component of this is the Renewables Obligation which added around £75 to the summer 2022 price cap.[37]

9. On 22 June 2022, the National Audit Office published a report: *The energy supplier market*.[38] The purpose of the report was to evaluate the role of Ofgem and BEIS in the collapse of the retail market, and their performance in responding to supplier failures. It concluded that whilst Ofgem could not prevent the rise of wholesale gas prices, it failed in the preceding years to ensure the retail market was sufficiently resilient against risks.

32 *Domestic energy prices*, CBP-9491, House of Commons Library, 11 July 2022, p 26
33 Ofgem, Price cap to increase by £693 from April, 3 February 2022
34 ibid.
35 ibid.
36 ibid.
37 ibid.
38 National Audit Office, *The energy supplier market*, 22 June 2022

Furthermore, that Ofgem and BEIS need to work together in the recovery of the retail market to facilitate the longer-term transition to a supplier market that can deliver on its role in the transition to net zero.[39]

Our inquiry

10. On 22 September 2021, we held an urgent oral evidence session with the Secretary of State for Business, Energy and Industrial Strategy, Rt Hon Kwasi Kwarteng MP, on rapidly rising wholesale gas prices.[40] We launched our inquiry on 8 December 2021 to examine three key issues:

(1) the causes of the energy retail market collapse and the extent to which the policy and regulatory regime that was designed and overseen by the Government and Ofgem exacerbated the risk of supplier failures;

(2) the action necessary by the Government and Ofgem to boost the financial resilience of the supply market and promote sustainable competition while also upholding the Government's commitment to decarbonise the power sector by 2035 and deliver net zero by 2050; and,

(3) the adequacy of the measures announced by both the Government and Ofgem to support customers with the significant rise in their energy bills.

11. We took oral evidence between February 2022 and May 2022 from representatives of the energy sector, including consumer groups, energy suppliers operating in the market, directors of failed energy companies, the regulator and the Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy. We received over 40 submissions of written evidence. A full list of all those who gave evidence to our inquiry is included at the end of this report. We are grateful to all who provided evidence to our inquiry.

12. In chapter two of this report, we set out Ofgem's significant and systemic failure to effectively regulate the energy retail market over an extended period of time. We consider its poor performance in licensing energy suppliers and enforcing its own rules. We reflect on the relationship between Ofgem and the Government and the role of Parliament in its oversight of the regulator.

13. In chapter three, we set out our ongoing concerns regarding the Supplier of Last Resort process, including the behaviour of administrators and the imbalance of risk between suppliers and customers, which permits suppliers to exit the market with little consequence, while customers pick up the costs. We also consider the decision-making by the Government during the Special Administration of Bulb and the subsequent cost exposure to the taxpayer.

14. In chapter four, we examine Ofgem's current plans to boost the financial resilience of energy retailers, including the risk of the proposals adding costs to energy bills and

39 Following the National Audit Office's *The energy supplier market* report, the Public Accounts Committee launched its Regulation of energy suppliers inquiry. It held an evidence session on 11 July 2022 with representatives of Ofgem and BEIS. Public Accounts Committee, Regulation of energy suppliers, accessed 12/07/2022

40 Business, Energy and Industrial Strategy Committee, UK Gas Market, 22 September 2021

distorting competition. We reflect on the future of the price cap including the opportunities of alternative forms of price protection. We set out the case for third-party intermediaries to be regulated and the policy direction we seek from the Government's upcoming revision of its Energy Retail Market Strategy.

15. In chapter five, we assess the effectiveness of the Government's support package, announced in May 2022, to help households pay their rising energy bills. We assess whether further action is required to reduce the burden of standing charges, to support customers who accrue energy debt as a result of this crisis and to end self-disconnection for those on prepayment meters. Finally, we call on the Government to bring forward urgent measures to reduce household energy demand.

16. We note the significance of wholesale market reform in delivering the Government's target to decarbonise the electricity market by 2035 and reduce energy bills. Our next inquiry, *Decarbonisation of the power sector*, will consider wholesale market reform, including the decoupling of gas and electricity prices and network charging arrangements in detail.[41]

41 The terms of reference for the inquiry can be found on our website. Business, Energy and Industrial Strategy Committee, Decarbonisation of the power sector, accessed 28 June 2022

2 Ofgem's performance

17. We found overwhelming consensus that the collapse of 29 energy retailers between July 2021 and May 2022 could have been mitigated through robust regulation of suppliers.[42] Witnesses from across the energy sector agreed that Ofgem had failed to deliver on its duties and is responsible for a significant and structural failure of supervising an essential market.[43] The key reasons identified by witnesses for Ofgem's failure was its low bar approach to licensing energy suppliers, which allowed companies with glaringly inadequate financial arrangements and high-risk business models to enter the market at minimal cost, grow rapidly once in the market with limited requirements or monitoring, and then face no barrier to exit.[44] This was compounded by Ofgem's failure to enforce the rules that were in place.[45]

Financial resilience of the supplier market

18. On 3 May 2022, Oxera (an economics and finance consultancy) published a review, commissioned by Ofgem, evaluating the regulator's role in the collapse of the retail market.[46] It made clear that Ofgem repeatedly overlooked a series of red flags that demonstrated the inadequacy of many suppliers' financial arrangements and business models. As illustrated in Figure 2,[47] Oxera found that a number of suppliers[48] that went on to fail shared several common characteristics: negative equity balances[49] in the years leading up their failure; poor liquidity[50] and low levels of working capital; over-reliance on customer credit balances; and, either unhedged,[51] or not substantively hedged,[52] positions.[53] These combined factors limited suppliers' abilities to absorb sustained increases in wholesale energy prices.[54]

42 See for example: Centrica (EPM0024); So Energy (EPM0025); Citizens Advice (EPM0014); ScottishPower (EPM0029); Policy Exchange (EPM0004); E.ON (EPM0013); EDF Energy (EPM0031); Elexon (EPM0016); Prospect (EPM0003); See also: Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022; National Audit Office, *The energy supplier market*, 22 June 2022
43 ibid.
44 ibid.
45 ibid.
46 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022
47 ibid. p 57
48 The sample of failed suppliers chosen by Oxera corresponds to £1.5 billion of Supplier of Last Resort (SoLR) levy claims, accounting for 82% of all SoLR claims made between September 2021 and December 2021. It covers around 60% of customers affected by supplier failures.
49 Equity balances are the net value of the supplier after paying all its debts.
50 Liquidity is a measure of a company's assets that are cash or can easily be converted into cash.
51 Hedging is where energy suppliers agree contracts to fix the price of energy purchased from the wholesale market for a certain period to reduce their exposure to market volatility.
52 I.e. more than 50% over nine months or more.
53 The National Audit Office's report, *The energy supplier market*, reviewed administrators' reports on issues leading to each supplier's insolvency for 24 out of the 29 suppliers that failed between July 2021 and May 2022 and found that 71% mention insufficient hedging. National Audit Office, *The energy supplier market report*, 22 June 2022
54 Oxera, Review of Ofgem's regulation of the energy supply market, 3 May 2022

Figure 2: Overview of the failed companies in Oxera's sample

	Category	Customer type	Failure month	Working capital adequacy	Working capital composition	Hedging	Equity balances
Avro	Large non-legacy	Domestic only	September 21	Current ratio consistantly consistantly at 1 from June to December 2020.	Highly reliant on customer credit balances (c. 80% of total assets in 2020).	Low hedging levels (20% for three months out and 15% for nine months out).	Negative in FY 2020
Utility point	Medium	Domestic only	September 21	Current ratio consistantly below 1 from June to December 2020.	Highly reliant on customer credit balances (peaks at around 90% of total assets in 2020).	Limited disclosure even after Ofgem specified its Request for Informartion (RFI) questions on hedging in April 2021.	Negative in FY 2020
Pure Planet	Medium	Domestic	October 21	Current ratio consistantly below 0.5 from June to December 2020.	Moderately reliant on customer credit balances (briefly peaked at around 25% of total assets in February 2021 and dropped to 12% in one month).	High levels of hedging for three months out. No hedging for variable tariffs beyond three months.	Negative in FY 2020
People's Energy	Medium	Domestic and non-domestic	September 21	Current ratio consistantly below 1 from June to December 2020.	Reliant on customer credit (up to 40% in 2020.	Moderately high levels of hedging (67% to 46%) for six months out.	Negative in FY 2020
PFP Energy	Small	Domestic and non-domestic	September 21	Current ratio consistantly below 1 from June to December 2020.	Reliant on customer credit (up to around 40% of total assets in 2020.	High levels of hedging for at least nine months out (91% for three months out and c. 70% for nine months out for both gas and electricity).	Negative in FY 2020
CNG Energy	Small	Non-domestic	November 21	Current ratio consistantly above 1 from June to December 2020.	Limited reliance on customer credit (consistantly below 10% of total assets in 2022 and 2021).	Fully hedged for fixed contracts for at least nine months out; limited disclosure on overall level of hedging.	Negative in FY 2020
Green Supplier	Small	Domestic and non-domestic	September 21	Current ratio consistantly above 1 from June to December 2020.	Highly reliant on customer credit balances (peaks at around 90% in in 2020)	Limited disclosure even after Ofgem specified its RFI questions on hedging in April 2021.	Negative in FY 2020

19. Oxera identified two types of unsustainable business models that were pursued by fast-growing energy suppliers:

i) a "growth model", where businesses relied on customer credit balances to fund their day-to-day operations and act as a buffer against any short-term shocks. This model relied on growth in the customer base to keep ahead of future liabilities, making the model unsustainable if growth decelerated; and,

ii) a "timing model", under which suppliers entered the market at favourable moments to undercut competitors that held hedges at a higher price. These businesses entered long-term supply agreements with customers based on prevailing low spot rates.[55] By not hedging adequately, suppliers were left exposed when faced with sustained increases to the wholesale market spot price.

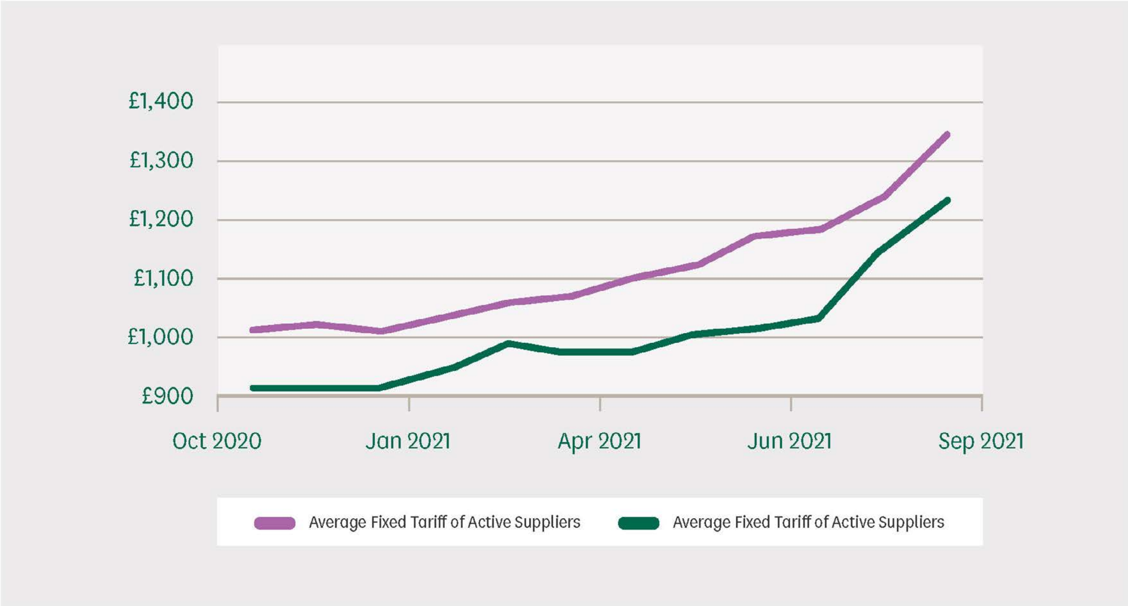
Oxera noted that these business models were not mutually exclusive, and companies may have followed a combination of the two. Oxera concluded that in both cases, these models were incentivised by the regulatory regime and "created an environment in which a large increase to the wholesale price would lead to correlated failure of multiple suppliers".[56]

20. In its *Market Meltdown* report, published in December 2021, Citizens Advice highlighted that many of the failed energy suppliers offered unsustainably low prices and amassed large customer numbers in response.[57] It stated that these artificially low prices locked in via the fixed nature of the deals, even as wholesale prices increased, were a key

55 Prices in the wholesale spot market are for next-day delivery and are highly volatile. To avoid this volatility, energy suppliers can hedge their energy purchasing through forward-looking contracts.
56 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 5–6
57 Citizens Advice, *Market Meltdown*, December 2021

reason for supplier failures.[58] Figure 3[59] illustrates analysis conducted by Citizens Advice of the average fixed tariff offered by failed suppliers compared to suppliers still operating in the market.[60]

Figure 3: Comparison of fixed price tariffs offered by suppliers, October 2020-September 2021



Entry requirements

21. After the number of small suppliers entering the market accelerated in the early 2010s, actors from across the sector expressed growing concerns about unsustainable business models and poor practices.[61] Ofgem was warned time and time again by the sector that it had made it far too easy for ill-equipped suppliers to be granted a licence to operate.[62] Ofgem did not require licence applicants to submit information on their business models, working capital arrangements, or financial viability.[63] The Oxera review noted that "there was little to prevent any player that identified an opportunity in the market from entering".[64] As early as 2013, Citizens Advice formally wrote to Ofgem to express concerns over the lack of entry requirements.[65] While Dermot Nolan, former CEO, Ofgem,[66] seemed unable to recollect calls from Citizens Advice to reform supplier licensing during his tenure, these were in fact plentiful and well-documented.[67]

58 ibid.
59 ibid., p 11
60 ibid.
61 For more information on entry and exit of suppliers in the market see: Ofgem, 'Retail Market Indicators', accessed 29/06/2022
62 Citizens Advice, *Timeline of Citizens Advice and Ofgem engagement on compliance and enforcement*, published December 2021; E.ON (EPM0013)
63 The National Audit Office explained in its report that following the privatisation of the energy retail market Ofgem required licence applicants to provide substantial information, including business plans and financial statements. As the market matured, Ofgem reduced its information requirements and no longer requested information about suppliers' business model, working capital, financial viability, or compliance arrangements. National Audit Office, *The energy supplier market*, 22 June 2022, p 38
64 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 22
65 Citizens Advice (EPM0014)
66 Dermot Nolan was the CEO of Ofgem from 2014–2020.
67 Q412 [Dermot Nolan]; Citizens Advice, *Timeline of Citizens Advice and Ofgem engagement on compliance and enforcement*, published December 2021

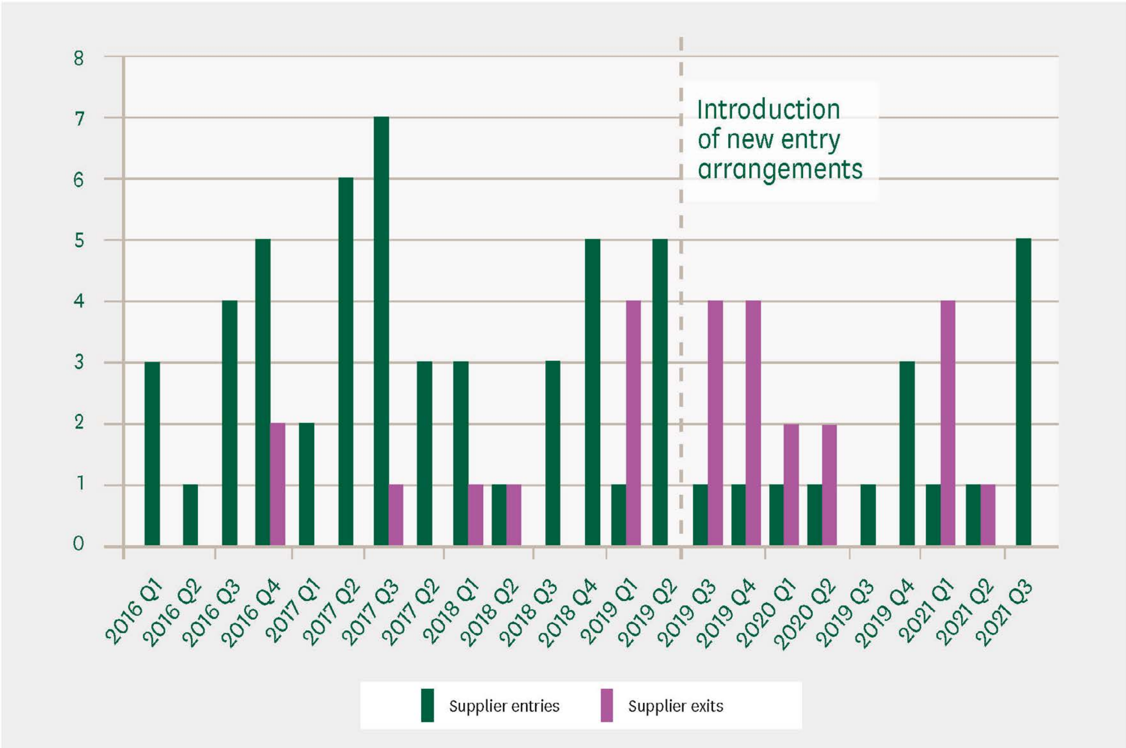
22. We took evidence from CEOs of two failed energy suppliers. Jake Brown founded the now failed Avro Energy in 2014.[68] He was a former non-league footballer who had just finished his undergraduate degree in law.[69] When we asked Jake Brown whether he took a fit and proper test before entering the market, he told us "I don't believe so—unless Ofgem did a background thing on me. I don't remember ever filling anything in specifically".[70] Hayden Wood, CEO of the failed Bulb Energy (which entered the market in 2015), stated that he completed a fit and proper person test but that this was "a process that we ran ourselves internally, and then made a declaration to Ofgem".[71]

23. In November 2016, GB Energy, which served 160,000 customers, became the first supplier to fail in almost ten years. A further seven companies collapsed before Ofgem consulted on its approach to licensing suppliers in November 2018.[72] By this point, there was 70 suppliers in the market, up from 27 in 2014.[73] An additional five suppliers failed by the time the reforms to entry requirements were in place in June 2019.[74] Ofgem's Board papers show that the Supplier Licensing Review was supposed to take place in 2016–17, but this was delayed until 2018.[75] Dermot Nolan attributed the delay to resources being devoted to the design and implementation of the energy price cap, yet he failed to alert the Government to this resource constraint.[76] Mr Nolan recommended the delay to the Ofgem Board because, as he explained, the regulator was not particularly concerned about the risk or cost of supplier failure at that time.[77]

24. Despite the number of new entrants into the market having already slowed,[78] when the Supplier Licensing Review eventually started, it prioritised the review of entry requirements and delayed action to tackle the practices of existing suppliers which were operating in a financially unsustainable way. Following the Supplier Licensing Review, Ofgem introduced new entry criteria from June 2019,[79] which required new entrants to have appropriate resources to enter the market, appropriate plans to meet their regulatory obligations, and be run by individuals that are fit and proper.[80] As shown in Figure 4,[81] these new requirements significantly deterred the entry of new suppliers to the market.[82]

68 Avro Energy collapsed in September 2021.
69 Q312 [Jake Brown]
70 Q313 [Jake Brown]
71 Q267 [Hayden Wood]
72 Citizens Advice (EPM0014); Ofgem, 'Consultation – Supplier Licensing Review (Entry Requirements)', 21 November 2018. This was eight years after Ofgem's last substantial review into licensing conditions which was conducted in 2010: Ofgem, 'Gas and Electricity licences - Changes to the Application Regulations and Revocation Schedules of future licences', 3 September 2010
73 Ofgem, 'Retail market indicators', accessed 19/06/2022. New entrants held around 40% of the market share by this point.
74 Citizens Advice, *Market Meltdown,* December 2021, p 8
75 Oxera, Review of Ofgem's regulation of the energy supply market, 3 May 2022, p 20
76 Q426–427 [Dermot Nolan]
77 Q438 [Dermot Nolan]
78 This is illustrated in Figure 4.
79 Ofgem, 'Ofgem introduces new tougher entry tests for energy suppliers', 11 April 2019
80 This would account for links to companies that previously collapsed or had enforcement action against them.
81 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 23
82 The National Audit Office found that since July 2019 there have been seven new entrants to the domestic market, all of which entered on licences granted prior to the 2019 changes, meaning they have not been through the new assessment. National Audit Office, *The energy supplier market,* 22 June 2022

Figure 4: Entry and exit of domestic suppliers



25. **Until June 2019, Ofgem granted energy suppliers a licence to operate in the market without ensuring they had access to sufficient levels of working capital, an acceptable business plan, or were run by individuals with relevant expertise. Ofgem's delay to the Supplier Licensing Review was unacceptable and inexcusable which, if carried out when it should have been, would have reduced the recent costs of supplier failure. Ofgem's negligence has contributed to higher energy bills, which is in complete contradiction to its mandate to act in the interests of consumers.**

Ongoing requirements

26. Once in the market, poorly run and financially irresponsible suppliers operated with minimal ongoing requirements and little to no checks from Ofgem.[83] There were no ongoing requirements for companies to maintain certain levels of working capital or have appropriate risk management strategies in place.[84] There were no requirements to stop thinly capitalised companies relying on customer credit balances and the collection of Renewables Obligation[85] payments to drive business growth.[86]

27. Dermot Nolan described the regulatory regime as "permissive". He explained that this was the result of a conscious decision by Ofgem's Board, and that this was encouraged

83 See for example: Centrica (EPM0024); Citizens Advice (EPM0014); ScottishPower (EPM0029); E.ON (EPM0013); So Energy (EPM0025); EDF Energy (EPM0031)

84 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 26

85 The Renewables Obligation requires electricity suppliers to source a specified proportion of the electricity they supply to customers from renewable sources. Ofgem issues Renewables Obligations Certificates (ROCs) to generators based on the type of technology that is used and the amount of electricity generated. Generators sell ROCs to suppliers or traders. All suppliers have to present ROCs corresponding to the amount of energy supplied, and suppliers that do not present enough certificates pay a penalty.

86 See for example: Centrica (EPM0024); Citizens Advice (EPM0014); ScottishPower (EPM0029); E.ON (EPM0013); So Energy (EPM0025); EDF Energy (EPM0031)

by the Government, to create a market that attracted new entrants.[87] When asked about the failure to tackle the poor practice of existing companies in parallel to boosting entry requirements, Dermot Nolan, openly admitted "we found it difficult […], to find the right set of rules […] for existing firms".[88]

28. As noted in paragraph 25, as part of the Supplier Licensing Review, Ofgem also reviewed the ongoing requirements for suppliers active in the market in October 2019.[89] The new rules emerging from the Supplier Licensing Review included requirements to be financially responsible and to take action to minimise costs that could be mutualised in the future; assessments to check suppliers are adequately resourced as they grow; powers to require independent audits of a supplier's service or financial health, as well as requirements to ensure senior staff are fit and proper on an ongoing basis; and for suppliers to be open and cooperative with Ofgem. These reforms were not implemented until early 2021. Between 2019 and early 2021, a further 13 energy suppliers failed.[90] Ultimately, the reforms came far too late to have any meaningful impact, and, as the National Audit Office noted in its report, *The energy supplier market*, published on 22 June 2022, combined with the Supplier of Last Resort process (discussed in chapter three), suppliers in the market still had nothing to lose from exiting.[91] Citizens Advice found no evidence to demonstrate that the suppliers who failed following July 2021 changed their behaviour in response to the new rules.[92]

29. Dermot Nolan expressed regret at not moving faster in 2017–18, and in particular for not introducing stricter controls over existing firms, which he accepted "would have stopped some of the failures that have happened" and avoided "some of the mutualisation costs we have seen".[93] Jonathan Brearley, current CEO, Ofgem, said:

> it is clear to me, and it is clear to the current Ofgem Board, looking over all of our institution's history, that, had, financial controls been in place sooner, we would have likely seen fewer suppliers exit the market. For that, on behalf of Ofgem and its Board, I would like to apologise.[94]

30. **The lack of ongoing requirements for suppliers operating in the market allowed thinly capitalised companies to rely on customers' money to fuel business growth and operate with either no hedging or inadequate hedging against future energy prices. These companies took substantial risks to undercut responsible suppliers. The new rules put in place in early 2021 had no meaningful impact on suppliers' practices. Ofgem has proved incompetent as the regulatory authority of this complex market, thereby costing taxpayers billions of pounds. The scale of failure and the cost exposure to taxpayers is only comparable to the financial crash of 2008.**

87 Q408 [Dermot Nolan]
88 Q423 [Dermot Nolan]
89 Ofgem, *Supplier Licensing Review: Ongoing requirements and exit arrangements*, 22 October 2019
90 Citizens Advice (EPM0014)
91 National Audit Office, *The energy supplier market*, 22 June 2022, p 40
92 Citizens Advice, *Market Meltdown*, December 2021, p 9
93 Q408 and Q448 [Dermot Nolan]
94 Q484 [Jonathan Brearley]

The Oxera review

31. As noted in paragraphs 19–20, Oxera's review (published in May 2022) into Ofgem's role in the collapse of energy retailers painted an alarming picture of the regulator's ability to execute its primary responsibilities.[95] The Oxera review found that Ofgem had no proper frameworks for defining and assessing consumer interests or what effective competition means, despite these concepts being fundamental to its remit.[96] The review concluded that Ofgem's approach to regulation was not backed by an evidence-based assessment of trade-offs, or a satisfactory understanding of the supplier business models and supplier incentives that emerged as a result of its own regulation.[97] This was corroborated by Dermot Nolan who told us that Ofgem "did not fully understand the structures of the companies" that entered the market.[98]

32. Oxera found no evidence of quantitative impact analysis being undertaken to inform key policy decisions, including the 2018 Supplier Licensing Review.[99] Ofgem's ability to carry out rigorous quantitative modelling has been an ongoing concern for stakeholders. For example, several respondents to the House of Lords, Industry and Regulators Committee's recent inquiry, *Net zero transformation: delivery, regulation and the consumer*, noted that Ofgem's modelling was often based on "unrealistic assumptions" and "flaws".[100] Some suppliers echoed this criticism of Ofgem's impact analysis of its current proposal to ringfence customer credit balances (discussed in chapter four).[101]

33. Ofgem's monitoring of firms was patchy, leaving systemic risks to go undetected.[102] When risks were identified Ofgem was slow to act.[103] Ofgem substituted proactive monitoring with external audit statements to verify suppliers' financial statements and going concern positions.[104] As Oxera noted, retrospective company accounts do not provide ongoing assurance that companies remain financially fit or account for the risk of supply and demand-side shocks to the market.[105] It was not until March 2020 that Ofgem collected industry-wide financial data.[106] Jonathan Brearley accepted that prior to this, Ofgem failed to carry out active supervision of energy suppliers' financial positions to the extent it should have.[107]

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95 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 11
96 ibid., p 11
97 ibid., p 41. The Oxera review also found that Ofgem did not seek evidence on trade-offs on an ongoing basis (e.g., between competition and financial resilience) nor sufficiently test whether the economic incentives at the point of entry and exit were aligned with the protection of the consumer interest.
98 Q442 [Dermot Nolan]
99 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 11
100 Independent Renewable Energy Generators Group (IREGG) (ONZ0009); RenewableUK (ONZ0049); In April 2022, Citizens Advice also wrote to Ofgem to raise concerns that it had not published the quantitative modelling to justify its Market Stabilisation Charge and referred to the distributional analysis associated with the policy as "quite flimsy" Citizens Advice, 'Response to Ofgem consultation on changes to the Market Stabilisation Charge', 14 April 2022
101 Octopus Energy (EPM0042); So Energy (EPM0043); OVO (EPM0046)
102 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 10
103 ibid.
104 ibid., p 31
105 ibid.
106 ibid., p 72
107 Q15 [Jonathan Brearley]. The Oxera review highlighted that the purpose of the exercise was to address concerns around the level of bad debt that suppliers may accrue in response to the Covid-19 pandemic, not to assess suppliers' vulnerability to shocks on the wholesale market. The metrics available from this data did not enable Ofgem to get ahead of the supplier failures. Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 10

34. The Oxera review also identified significant governance failures at Board level. Its evaluation of Ofgem's Board Effectiveness Review papers from 2017, 2019 and 2021 (which collate anonymised views of Board members) found that the Board was unable to devote adequate time to key issues and matters of longer-term strategy. Board papers were often of poor quality and the Board was not always privy to the necessary information required to make evidence-based decisions.[108] Decisions on tackling risky supplier behaviour were often taken by operational teams as opposed to the Board, and in some cases, operational teams reversed the Board's decisions. For example, in late 2019, the Board decided to protect 50% of customer credit balances, a decision which was overturned by Ofgem staff, and a substitute policy was publicised prior to further Board deliberation.[109] This lack of discussion and oversight by the Board of significant decision-making in the organisation is further evidence of Ofgem's lax attitude to tackling risky supplier behaviour at the time. Dermot Nolan acknowledged this lax attitude when he conceded that issues of supplier failure were discussed by the Board "informally and over dinner", which were not "minuted or kept as formal Board records".[110]

35. Oxera made a series of recommendations to Ofgem, including to develop frameworks for how consumer interests and effective competition are defined and measured, and use these to inform decisions on market design options to mitigate the risk of over-regulating the market; ensure it has the appropriate financial, regulatory and industry expertise in its retail teams; and, that the Board be prepared to challenge policy decisions in line with the consumer interests and effective competition frameworks.[111] In a letter dated 27 June 2022, Ofgem told us that it accepted the recommendations of the Oxera report.[112] In its *Net Zero Britain: developing an energy system fit for the future* report, published on 8 July 2022, Ofgem proposed an initial framework for consumer interests, which it intends to consult on.[113]

36. **Oxera's review of Ofgem's performance to regulate the retail market raised serious and fundamental questions about the regulator's ability to carry out its primary duties. We agree with its findings that Ofgem has no proper frameworks for defining and measuring what consumer interests are or what effective competition means, and that Ofgem failed to understand the business models of the suppliers it is required to regulate and the incentives created by its own regulatory regime. We are surprised and concerned by the absence of robust quantitative impact analyses, which should have been essential in underpinning key decisions on regulating the retail market. That important decisions on tackling risky supplier behaviour were taken by operational teams rather than the Board, demonstrates a complete failure in corporate governance.**

37. ***We recommend that Ofgem implements the recommendations of the Oxera report in full to ensure that it has the proper frameworks for defining consumer interests and competition. We call on Ofgem to carry out rigorous quantitative impact analysis to***

108 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 74–75
109 ibid., p 77–78
110 Q452 [Dermot Nolan]
111 Oxera, *Review of Ofgem's regulation of the energy supply market,* 3 May 2022, p 81–86
112 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
113 Ofgem, *Net Zero Britain: developing an energy system fit for the future*, 8 July 2022, p 32. Ofgem proposed four key components of an energy system that works in consumers interests: delivers fair prices for consumers; supports a low-cost transition to net zero; provides quality and standards so that all consumers, including vulnerable and disengaged consumers, receive good service that meets their needs; and is resilient to volatile wholesale prices, attractive for long-term investment and ensures reliable supply for consumers.

underpin regulatory reforms and to make these publicly available for scrutiny. Ofgem must take urgent steps to improve the quality of its governance and the effectiveness of its Board by proactively challenging decisions made within the organisation, ensuring it has the necessary information and sufficient time to vigorously deliberate issues and make evidence-based decisions.

Enforcement and compliance

38. Ofgem enforces rules across a range of areas such as: competition, pricing, customer service, billing, complaints, debt, levies, and industry schemes. It has substantial powers to enforce these rules. These include investigations that can result in fines and payments to affected customers, orders that force a company to comply with the rules, and powers to introduce restrictions until they do so (for example, stopping companies taking on new customers or revoking its supply licence).[114] In addition to enforcement, Ofgem can take compliance action, where it works with companies to change their processes and make redress payments when issues are identified.[115] It gathers insights on company practices through formal Requests for Information and evidence from Citizens Advice and the Energy Ombudsman via a regular forum for sharing data and information about supplier performance and consumer contacts.[116]

39. Both the former and current CEOs of Ofgem ardently defended the regulator's record on enforcement and compliance. Jonathan Brearley asserted that "our record on enforcement is stronger rather than weaker".[117] However, evidence to our inquiry did not support this view.[118] Witnesses repeated concerns that, despite the powers at Ofgem's disposal, it consistently and frequently failed to enforce its rules against suppliers in breach of their licence conditions, even when evidence was directly reported to the regulator.[119] Stakeholders referenced Ofgem's failure to take action against suppliers who "openly and repeatedly flouted"[120] a whole host of rules, including on accurate billing,[121]

114 Ofgem, 'Compliance and Enforcement', accessed 21/06/2022
115 ibid.
116 Citizens Advice (EPM0014)
117 Q527 [Jonathan Brearley]; Q463 [Dermot Nolan]
118 See for example: Citizens Advice (EPM0014); Q171 [Rachel Fletcher]; National Energy Action (EPM0011); Energy UK (EPM0028); Age UK (EPM0009); Octopus Energy (EPM0010); Centrica (EPM0024)
119 ibid.
120 Citizens Advice, *Market Meltdown*, December 2021, p 16
121 In its written evidence, Citizens Advice told us that it repeatedly raised concerns about consumers receiving accurate bills and that concerns about billing is the top issue that people contact the Citizens Advice consumer service about. There are 'back billing' rules in place protecting customers from paying for energy that they have not been billed for if it is from more than 12 months ago. Citizens Advice's consumer service helped more than 1000 people with potentially non-compliant back bills last year, worth an estimated average of £1197 per customer, a total of nearly £1.2 million. Citizens Advice (EPM0014)

debt collection,[122] self-disconnection,[123] smart metering,[124] and customers having access to phone lines.[125] Citizens Advice stated that this failure to tackle systemic rule breaking across the market led to a culture of "non-compliance".[126]

Box 2: Referrals of energy suppliers' compliance to Ofgem by Citizens Advice

Over the last decade, Citizens Advice reported several companies to Ofgem for potential breaches of licence conditions.[127] Ofgem failed to take any significant regulatory action in response and the companies later failed. For example:

- In 2016, Extra Energy was reported to Ofgem for inaccurate billing and inappropriate debt collection practices. Ofgem launched an investigation, but Extra Energy failed before the investigation concluded, so no regulatory action was taken.
- In 2017, Cardiff Energy was reported to Ofgem for breaching standards of conduct by treating customers unfairly. No formal regulatory action was taken by Ofgem, and Cardiff Energy ceased trading in August 2019.
- In 2018, Pure Planet was reported to Ofgem for breaching licence conditions around Complaints Handling Standards by not having a phoneline by which customers could contact the supplier. Ofgem took no action and Pure Planet failed in 2021.

40. In March 2021, Ofgem introduced a requirement for companies to have a Customer Continuity Plan, or living will, to safeguard customers if their supplier fails, and they are moved to a new supplier. These should include information on customers' needs (e.g., vulnerability), billing systems, and how customer account balances will be collated.[128] Citizens Advice found that only one of the 20 suppliers that failed between August to mid-November 2021 had a living will in place.[129] Ofgem's failure to enforce this rule intensified issues for customers experiencing a supplier failure, including delays in retrieving their credit balances.[130]

122 This is discussed in chapter five.

123 ibid.

124 Centrica told us in its written evidence that smaller suppliers have not incurred fines for missing smart metering targets and that recent failures have shown their smart meter penetration was far below others in the market. Centrica (EPM0024)

125 In its written evidence, Citizens Advice said that it repeatedly raised concerns about customers' inability to contact their supplier by telephone, which is evidence of a potential breach of the Complaints Handling Standards. Between September to December 2020, 1 in 7 customers who tried to contact their energy supplier could not do so. Citizens Advice (EPM0014)

126 Citizens Advice, 'Catalogue of errors at Ofgem leaves consumers with multi-billion pound bill', 9 December 2021

127 Citizens Advice, 'Timeline of Citizens Advice and Ofgem engagement on compliance and enforcement', December 2021

128 Ofgem, *Statutory Consultation – Supplier Licensing Review: Ongoing requirements and exit arrangements*, June 2020, p 49

129 Citizens Advice (EPM0014)

130 This is discussed in chapter three.

Box 3: Case Study: Avro Energy

On ten separate occasions from 2018 to 2021, Citizens Advice raised concerns with Ofgem regarding the now failed Avro Energy. These concerns related to billing errors, debt recovery practices, and inappropriate use of transfer blocking. Ofgem told Citizens Advice that action was being taken via its compliance team where necessary, but there was no formal enforcement in response to customer service issues at Avro.[131]

Following Avro's collapse in September 2021, its customers were transferred to Octopus Energy. Octopus Energy told us that Avro was very behind on its smart meter roll out, had not been giving customers guaranteed standards of performance payments when it failed to meet regulatory standards, and was not properly back billing for its customers.[132]

41. Mr Nolan told us that civil servants raised concerns about the structural problem of energy suppliers using customer credit balances to fuel growth.[133] He explained that, in response, Ofgem established a "principle" that suppliers should not be "over[ly] reliant" on these prepayments for working capital.[134] However, the principle did not come into force until January 2021, after Mr Nolan's departure from Ofgem in February 2020. In the meantime, Mr Nolan said that the regulator simply called up a company, identified as OVO, and asked them to stop using customer credit balances.[135] We would expect the regulator to challenge systemic issues of this kind in a far more formal manner.

42. Furthermore, the Oxera review identified high levels of non-compliance with Ofgem's Requests for Information, for example, only 60% of suppliers disclosed information about their hedging approach between June 2020 and November 2021.[136] Citizens Advice also stated that Ofgem has never used any of its new powers to tackle poor financial practice in existing companies, such as conducting an independent audit of a supplier.[137]

43. The number of Ofgem staff working on enforcement fell by 25% between 2017–18 and 2020–21, before rising slightly in 2021–22.[138] Dermot Nolan could "not recall" the reason for the decline in enforcement staff during his tenure.[139] Jonathan Brearley, current CEO, Ofgem, explained that Ofgem now does enforcement differently: "the enforcement team's role is more of a co-ordination and organisation role, and there is much stronger involvement from the regulatory policy teams behind that". He added that this "does not mean we cannot step it up".[140] Ofgem confirmed that it is actively recruiting roles in its enforcement and compliance teams.[141]

131 Citizens Advice, 'Catalogue of errors at Ofgem leaves consumers with multi-billion pound bill', 9 December 2021
132 Q171 [Rachel Fletcher]
133 Q474 [Dermot Nolan]
134 Q472–474 [Dermot Nolan]. The Financial Responsibility Principle (FRP) was introduced following the Supplier Licensing Review. According to Ofgem, the FRP acts as an over-arching obligation – ensuring suppliers act in a more financially responsible manner and take steps to bear an appropriate share of their risk. The FRP required suppliers to be able to meet its financial obligations while not being overly reliant on customer credit balances for its working capital. For more information see: Ofgem, *Financial Responsibility Principle guidance*, 22 March 2021; Ofgem (EPM0030)
135 Q477-Q478 [Dermot Nolan]
136 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 108
137 Citizens Advice, *Market Meltdown*, December 2021, p 9
138 ibid., p 14
139 Q465 [Dermot Nolan]
140 Q527 [Jonathan Brearley]
141 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022

44. **Even when matters of poor practice and potential breaches of licence conditions were directly reported to Ofgem, the regulator repeatedly failed to use its enforcement powers in any meaningful way. This was at the expense of customers who Ofgem is mandated to protect. Telephoning a supplier to tell it to stop using customer credit balances to drive business growth is neither an appropriate nor formal enough action from a regulator which, given its repeated unwillingness to use its enforcement powers effectively, rendered itself futile.**

45. ***We call on Ofgem to make full and proper use of its enforcement and compliance powers to clamp down on rule breaking by suppliers, particularly relating to customer service standards. Ofgem should work with the Government to ensure it has the necessary complement of qualified staff working on its enforcement and compliance teams. We ask Ofgem to provide us with a detailed strategy on how it will improve its enforcement and compliance activity to effectively protect customers, and the timelines within which this will be achieved. We expect that from this financial year onwards, and on an annual basis, Ofgem provides a memorandum to this Committee, which includes a breakdown of the allocation of its resources and a summary of the enforcement and compliance action it has taken in response to rule breaking by energy suppliers.***

46. **Whilst we have been reassured by Jonathan Brearley that changes are being made to the governance, leadership, and performance of Ofgem we remain deeply concerned that such negligent behaviour was able to take place for so long. If Dermot Nolan was still in post, we would be calling for his dismissal.** ***We therefore require the current and any future CEO and Chair of Ofgem to report annually to this Committee and to BEIS on the measures in place to ensure effective accountability and transparency required from Ofgem.***

Directors at Avro Energy

47. In addition to the rule breaking outlined above,[142] we also considered the conduct of the directors at Avro Energy. We found that the directors consistently enriched themselves, despite the company accruing heavy losses and ultimately failing. The directors failed to operate the energy company with a prudent hedging strategy[143] and were negligent in managing financial risks. Ultimately their negligence caused the failure of Avro, and left billpayers footing the cost of their failure. Ofgem expects the total cost associated with Avro's failure to amount to £700 million.[144]

48. Avro's directors failed to keep proper accounting records and failed to send accounts and returns to Companies House.[145] On 30 June 2020, Avro Group Ltd.'s accounts (published 28 January 2022) were audited by Azet's Audit Services and were published with

142 See Box 2 which details Avro's rule breaking related to customer service standards.

143 As displayed in Figure 2, the Oxera review found that Avro had extremely low hedging levels (20% for three months out and 15% for nine months out).

144 Ofgem's calculation for the initial claims is £681 million, which just covers initial energy purchases by the new supplier Octopus Energy. This will be higher when other factors like credit balances are included. Avro collapsed owing £90 million in customer credit balances. Ofgem, 'Faster SoLR levy process: consents to Last Resort Supply Payments', 22 December 2021

145 Companies House Overview for Avro Energy Limited shows that the accounts to 29 June 2020 are overdue. GOV. UK, 'AVRO ENERGY LIMITED overview - Find and update company information', accessed 18/07/2022

a disclaimer of opinion.[146] The auditor found that the audit evidence available "was not sufficient or appropriate, due to a lack of access to books and records and restricted access to key financial systems".[147] They found these issues to be both material and pervasive.[148]

49. Jake Brown and Philip Brown withdrew significant sums of money from Avro for personal benefit throughout 2019–21. During the year to June 2019, a year when Avro Group made a loss before tax of £28,068,811, Avro Group loaned £163,655 to directors.[149] During the year to June 2020, when Avro Group's accounts claimed a profit, but received a disclaimer opinion from the auditors, they loaned a further £537,152 to directors.[150]

50. Avro Group also made significant payments to other companies controlled by Jake and Philip Brown. In the year to June 2020, they paid Sendito Marketing (owned and directed by Jake and Philip Brown) £2,000,000.[151] In the year to June 2019, Avro paid Sendito Marketing £2,250,000.[152] In the year to June 2020, Avro Group made interest free loans to Berkeley Swiss Ltd (owned and directed by Jake and Philip Brown) of £830,754.[153] The significant payments to Sendito Marketing (£4,250,000 in 2019 and 2020 alone) were classed as management charges and were therefore not returned to Avro Group (within which Avro Energy is the only trading company).[154] Jake Brown claimed that these payments to Sendito were made in lieu of salary for the management team running Avro.[155]

51. As Avro was consistently loss making, accruing £55 million in combined operating losses to the point of administration, these significant direct and indirect payments to directors were financed by customer prepayments, rather than profitable positive cashflow.[156] It is unclear how much of these significant loans were repaid to Avro Group Ltd and Avro Energy Ltd before they entered administration in September 2021.

52. On 28 June 2021, two days before Avro Energy's 2020 accounts were due to be filed with Companies House, Avro Energy reported a change to its accounting period reporting date by a single day.[157] This technical adjustment, due to Companies House filing rules, allowed Avro an additional three months to submit its annual accounts, pushing back the deadline to file from 30 June 2021 to 28 September 2021.[158] Jake Brown admitted that this technical adjustment was made to extend the filing deadline, under advice from Avro's accountants.[159] Two days before the extended deadline to file the 2020 accounts (26 September 2021), Avro Energy went into administration, and the accounts remain outstanding.

146 Avro Group Limited, 'Annual Report and Consolidated Financial Statements for Year Ended 30th June 2020', 28 January 2022, p 8
147 ibid.
148 ibid.
149 Avro Group Limited, 'Annual Report and Consolidated Financial Statements for Year Ended 30th June 2020', 28 January 2022, p 25
150 ibid.
151 ibid.
152 ibid.
153 ibid.
154 ibid., p 23
155 Q319 [Jake Brown]
156 Alvarez & Marsal, *Joint Administrators' proposals*, 11 November 2021, p 5
157 Avro Energy Limited, Change of accounting reference date (AA01), 28 June 2021, p 1
158 ibid.
159 Q367 - Q371 [Jake Brown]

53. The CEO of Ofgem at the time, Dermot Nolan, said he was "not aware" of the behaviour of Avro's directors, and claimed to be "shocked and disturbed" by Jake Brown's evidence to us.[160] While the Insolvency Service has failed to pursue any misconduct proceedings against reckless energy company directors, we are of the view that Jake Brown and the other directors of Avro fulfilled The Insolvency Service's definition of "unfit conduct".[161]

54. Complaints about the conduct of directors of companies in administration cannot be raised directly with The Insolvency Service. Instead, complaints must be lodged with the insolvency practitioner (usually an administrator) responsible for the case. The insolvency practitioner must then decide whether they think the case should be raised with The Insolvency Service, and only they can submit concerns directly to The Insolvency Service. The Insolvency Service does not publish information as to concerns raised, and no information is released unless successful action has been taken against a company or director. We have no data as to how frequently concerns are raised to The Insolvency Service by administrators, however, no investigations into failed energy suppliers have been acknowledged.

55. **Avro Energy improperly used customers' money, including siphoning off customers' cash to different businesses in the directors' names, issuing loans to the directors, and paying poorly performing executives an unreasonably high salary. We were disappointed by the admission from Ofgem's former CEO, Dermot Nolan, that the regulator was oblivious to this activity while it was going on.**

56. ***We call on the administrators of Avro Energy to request that the Insolvency Service consider bringing action against the former Directors of Avro Energy specifically and to update us on what, if any, action can be taken to recover customers' money.***

57. ***We further call on the Government to review whether regulators such as Ofgem should be given new powers to bring enforcement action for unfit conduct by energy company directors given the very limited scope for The Insolvency Service to do so. We consider this to be particularly important for energy supply companies given the handling of customer monies and the importance of security of supply.***

Oversight of Ofgem

58. Ofgem, as the independent regulator of Great Britain's gas and electricity markets, is directly accountable to Parliament for the performance of its functions and duties. BEIS is its sponsor Government department and sets the wider policy and regulatory framework for the gas and electricity sectors to deliver the Government's objectives. The 2019 Framework Document sets out the relationship between Ofgem, BEIS and Parliament and details how BEIS should have sight of Ofgem as its sponsor Department.[162]

59. As detailed throughout, Ofgem prioritised the promotion of competition within the energy market over adequate regulatory supervision. This allowed poor practices

160 Q440 and 450 [Dermot Nolan]

161 For more information on what 'unfit conduct' includes see: HM Government, Company director disqualification, accessed 30/06/ 2022. We refer to the improper keeping of accounting records, using company money for personal benefit, and failing to send accounts to Companies House.

162 Department for Business, Energy, and Industrial Strategy; Ofgem, *Framework Document Between Department for Business, Energy and Industrial Strategy And The Gas and Electricity Markets Authority (Operating through Ofgem)*, 2019

to proliferate, leaving suppliers ill-equipped to deal with rising wholesale prices, and subsequently collapsing at a massive cost to billpayers.[163] In defending Ofgem's decision to focus on competition, both Jonathan Brearley and Dermot Nolan drew our attention to the "context at the time"[164] and the "strong pressure"[165] from the wider "body politic"[166] to focus on improving competition and easing the regulatory "burdens" on suppliers.[167] Mr Brearley explained that given the Government's emphasis on value for money for customers, the regulator's focus on diversity in the supplier market was "understandable".[168] This raises fundamental questions about both the relationship between the Government and Ofgem as a non-departmental public body, and of the effectiveness of Parliamentary oversight of that relationship and the work of the regulator.

60. In June 2016, the CMA identified a lack of clarity in how regulatory policy was being developed and lines of responsibility between the Government and the regulator.[169] The continued plethora of joint reviews conducted by BEIS and Ofgem is testament to this lack of clarity.[170] The review of the Energy Retail Market Strategy was initially a joint review,[171] which BEIS is now solely revising,[172] while Ofgem intends to lay out its "ideas as to how we build a retail market, including considering more radical changes to the retail market and regulatory structure" in the coming months.[173] The initial review was followed by proposals by BEIS on switching (discussed in paragraph 154) which we would have expected Ofgem as the independent regulator to lead.[174] Energy UK also called for clarity on who is leading longer-term reforms to the energy price cap, referring to the respective roles of Ofgem and BEIS as "confused".[175]

61. The Energy White Paper, published in December 2020, committed BEIS to consult on a Strategy and Policy Statement for Ofgem.[176] This Statement is expected to set out the strategic priorities of the Government's energy policy, the outcomes it seeks to achieve, and the roles of the Government, Ofgem and other parties which are collectively

163 The costs of supplier failures are explained in chapter three.

164 Q17 [Jonathan Brearley]

165 Q468 [Dermot Nolan] Mr Nolan was referring to 2014–2015 when the biggest six suppliers held 90% of the markets share and the energy market was referred to the Competition and Markets Authority for a full market investigation.

166 Q408 [Dermot Nolan]

167 ibid.

168 Q17 [Jonathan Brearley]

169 Competition and Markets Authority, *Energy market investigation*: Final report p 1227

170 For example, On 22 July 2019, BEIS and Ofgem launched a joint consultation on flexible and responsive energy markets to investigate what policy, legal and regulatory changes might be needed to ensure the energy retail market is fit for the future. See: Department for Business, Energy and Industrial Strategy, *Flexible and Responsive Energy Retail Markets*, July 2021. In July 2021, Ofgem and BEIS jointly sought views on its proposed institutional governance framework for the energy codes. See: Department for Business, Energy and Industrial Strategy, 'Energy code reform: governance framework', 20 July 2021. In November 2021, Ofgem and BEIS jointly consulted on the on addressing supplier payment default under the Renewables Obligation. See: Ofgem, 'Consultation on addressing supplier payment default under the Renewables Obligation(RO)', 10 August, 2021

171 On 22 July 2019, BEIS and Ofgem launched a joint consultation on flexible and responsive energy markets to investigate what policy, legal and regulatory changes might be needed to ensure that the energy retail market is fit for the future.

172 Department for Business, Energy and Industrial Strategy, 'Future of the energy retail market: call for evidence', 21 December 2021

173 Ofgem (EPM0030)

174 Department for Business, Energy and Industrial Strategy, *Domestic energy retail consultation: Opt-in switching and testing opt-out switching*, July 2021

175 Energy UK (EPM0028)

176 Department for Business, Energy and Industrial Strategy, *Energy White Paper*, CP 337 December 2020

responsible for delivering these goals.[177] This Statement is a vital opportunity to help the regulator manage the political and distributional trade-offs inherent to regulating the energy retail market. It must also provide clarity on the split of responsibilities between Ofgem and BEIS. Despite stating that this would be published in 2021, it has, as yet, failed to materialise.[178]

62. **We expect Ofgem, as the independent regulator, to clearly outline to Ministers and Parliament the risks and consequences associated with the delivery of Government objectives. We do not believe that Ofgem properly raised the risks to Government, or Parliament, that a deregulatory approach to promoting competition could severely undermine the financial resilience of the energy supplier market.**

63. **More significantly, we are concerned by the Government's apparent lack of understanding of the extensive failings of the regulator and the consequences that this would have on the market in the event of any demand or supply-side shocks. While we are not in favour of further interventionism from Government towards Ofgem, we expect BEIS to adhere to the principles set out by the Framework Document.**

64. **We would encourage more robust lines of communication and a clear delineation of responsibilities between Ofgem and BEIS to ensure transparency and effective scrutiny.**

65. ***We require Ofgem to start regularly and proactively reporting to the Department on how it is meeting its duties and to inform Ministers of any risks associated with the delivery of Government strategy. We ask the Department and Ofgem to review, update and publish a new Framework Document within six months of the date of this report.***

66. ***We recommend that the Government urgently publishes its long-delayed Strategy and Policy Statement for Ofgem to guide the regulator on how to manage the political and distributional trade-offs intrinsic to its responsibilities and clarify the split of responsibilities between Ofgem and BEIS.***

67. **We recognise that this Committee has an important role in the scrutiny of Ofgem's activity. We expect the regulator to be carrying out its core functions and delivering on its duties. It is neither feasible nor appropriate for Parliament to scrutinise, in real time, all aspects of Ofgem's decision-making. However, in light of its extensive failures, we commit to undertaking closer scrutiny of Ofgem.** ***We require Ofgem, to share key decisions, performance issues, and relevant policy concerns with this Committee. This should be in addition to writing to us with its Annual Report and Accounts and making both the Chairman and the Chief Executive Officer available for public scrutiny via this Committee.***

177 PQ 153305 [on Energy prices], 11 February 2021
178 ibid.

3 Supplier Exit Arrangements

68. As a direct consequence of both Ofgem's fundamental failure to regulate the supplier market and enforce basic rules, and the unprecedented rise in wholesale gas prices, between July 2021 and May 2022, 29 energy suppliers exited the market.[179] The Supplier of Last Resort (SoLR) process has been stretched to its capacity and the Special Administration Regime was used for first time following the failure of the seventh largest supplier, Bulb Energy, in November 2021.[180]

The Supplier of Last Resort process

69. When an energy company fails, it enters the SOLR process, and administrators run the company in the interim. Through a competitive bidding process, Ofgem appoints a new supplier to take on the failed supplier's customers.[181] Since July 2021, Ofgem has transferred approximately 2.4 million customers to new suppliers through the SoLR process.[182] This has, to date, been effective in maintaining energy supply for affected customers.

70. The SoLR process incurs additional costs for the appointed supplier, including purchasing energy on the wholesale market for the new customers and honouring customer credit balances.[183] Suppliers recover these costs via an industry-wide levy, which is then paid for by all customers through their energy bills.[184] Customers ultimately pay the costs of supplier failure. Under insolvency law, administrators have a statutory duty to recoup whatever costs they can for creditors of failed companies and not for customers.[185] Rachel Fletcher, Director of Regulation and Economics, Octopus Energy, told us that this creates a "massive imbalance".[186]

71. On 22 December 2021, Ofgem published the first set of SoLR claims from suppliers appointed since 1 September 2021. The transfer of 2.2 million customers of 22 failed suppliers totalled £1.8 billion.[187] Over 93% of these costs were incurred by suppliers purchasing energy on the wholesale market for their new customers and 3.6% of these costs related to returning customer credit balances.[188] Ofgem's latest estimate of the total

179 These 29 suppliers provided 4 million households with gas and electricity. National Audit Office, *The energy supplier market*, 22 June 2022, p 6

180 The Special Administration Regime was a contingency in the event that a supplier was too big for the SoLR process failed, provisions for the regime were included in the Energy Act 2011. It had never been used before until the collapse of Bulb Energy. For more information, see: Ofgem, 'Memorandum of Understanding: Energy Supply Company Administration', 9 February 2017

181 Citizens Advice (EPM0014)

182 National Audit Office, *The energy supplier market*, 22 June 2022, p 6

183 Ofgem (EPM0030). Ofgem's rules state that, suppliers can make a claim for any reasonable additional, otherwise unrecoverable, costs they incur, but these costs must be incurred as economically as possible.

184 Ofgem (EPM0030)

185 National Audit Office, *The energy supplier market*, 22 June 2022, p 30

186 Q180 [Rachel Fletcher]

187 This was for claims made by suppliers of last resort for the period between September and December 2021. This cost is particularly significant due to the rising wholesale gas prices. National Audit Office, *The energy supplier market*, 22 June 2022, p 28

188 Ofgem (EPM0030)

costs of supplier failures was £2.7 billion.[189] Of these costs, Ofgem expects purchasing energy on the wholesale market for new customers to continue to make up the vast majority, approximately 85% (£1,993 million), and for the costs relating to customer credit balances to increase to 10% (£217 million). The remaining 5% of costs relate to working capital (£127 million) and onboarding the new customers (£44 million).[190]

Recovering costs

72. The April 2022 energy price cap included an initial cost of £68 per customer for the 22 suppliers that failed between September and December 2021.[191] This cost could increase to around £94 per customer which will be reflected in future price caps.[192] The SoLR levy is split between gas and electricity costs and was previously recovered through standing charges via network charges on domestic electricity and gas bills.[193]

73. Following the collapse of retailers, consumer groups became increasingly concerned about how a significant increase in standing charges could impact vulnerable customers.[194] National Energy Action described standing charges as "regressive" because they are recovered on a fixed basis, meaning all customers pay the same amount irrespective of their income, usage, or payment type.[195] This disproportionately impacts prepayment customers, who are often on the lowest incomes and in vulnerable circumstances.[196] When prepayment customers cannot afford to top up their meter, they may be forced to self-disconnect their supply.[197] Whilst self-disconnected, standing charges accrue as debt and to access energy supply again, the standing charges must be cleared.[198] Higher standing charges means debt accrues more quickly.[199]

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189 Ofgem expects to receive further claims in the region of £548 million from suppliers of last resort appointed since December 2021 and from suppliers who submitted initial claims and have further claims to make. Until these claims are assessed by Ofgem, it is not possible for the regulator to provide a definitive total for the costs of supplier failures over 2021 to 2022. Ofgem is also currently consulting on whether SoLRs should be allowed to make claims six months after their appointment and a decision for this is expected in September 2022. Ofgem (EPM0030); Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022

190 Ofgem (EPM0030); National Audit Office, *The energy supplier market*, 22 June 2022, p 29

191 The April 2022 price cap period covers a sixth month period, from 1 April 2022 to 30 September 2022. Ofgem (EPM0030); National Audit Office, *The energy supplier market*, 22 June 2022, p 7

192 National Audit Office, *The energy supplier market*, 22 June 2022, p 7

193 Standing charges are a daily fixed amount consumers pay suppliers for gas and electricity. It varies by region due to the different costs to transport power to where customers live. The charge pays for costs that are fixed for a supplier on a per customer basis. This includes service administration fees, connections to and maintenance of the energy network and government schemes to reduce carbon emissions and fuel poverty. Suppliers can decide how they structure their standing charges within the cap Ofgem sets, as long as the overall tariff structure does not lead to default tariff customers paying above the relevant cap level.

194 See for example: National Energy Action (EPM0033); Citizens Advice (EPM0014)

195 National Energy Action (EPM0033)

196 The CMA's investigation into the energy market found that customers on prepayment meters are often on low incomes and/or in vulnerable circumstances. For more information see: Competition and Markets Authority, *Energy market investigation: Final report*, June 2016

197 Self-disconnection is defined as an interruption to electricity or gas supply by consumers using prepayment meters because of a lack credit on the meter or account, often due to affordability challenges. For more information, see: Citizens Advice, *Switched on Improving support for prepayment consumers who've self-disconnected*, 20 April 2018

198 National Energy Action (EPM0033). For the April 2022 price cap period (1 April to 30 September), the daily electricity standing charge is 45p, this has increased from 25p in the preceding price cap period, and the daily gas standing charge is 27p, formerly 25p. This means that over a week, the standing charge could accrue more than £6 of debt for a customer that has self-disconnected. See: Ofgem, 'Check if the energy price cap affects you', accessed 27/06/2022

199 National Energy Action (EMP0045)

74. In response to these concerns, in December 2021, Ofgem consulted on recovering the SoLR costs in an alternative way,[200] however, it did so for gas and not electricity. It consulted on recovering the costs of supplier failure through a volumetric charge for gas (adding it to the unit rate), but the question of reforming how the costs are recouped from electricity bills was considered "to be outside of the scope" of the consultation.[201] In February 2022, Ofgem confirmed its decision to add the SoLR charge to the unit costs of domestic gas bills.[202] The rationale given was that this will ensure that customers who consume relatively small amounts of gas will pay a small proportion of the overall charge than large consumers of gas.[203]

75. National Energy Action welcomed the reform but noted that the optimal route to recovering the costs of the SoLR levy for both gas and electricity is through general taxation as this is the "most progressive route".[204] In the meantime, it called for the costs of supplier failure for electricity to also be recouped on a volumetric basis as this is still a "more progressive method of payment than the flat rate levy that currently exists".[205] On 7 July 2022, Ofgem launched a consultation requesting stakeholder views on whether the existing fixed charge on electricity bills of supplier failure costs should be replaced with a usage based alternative.[206] However, it noted that many demographics with known vulnerabilities are higher users of electricity, such as those who run medical equipment, and therefore the change may have different impacts for different consumers.[207]

76. **We are concerned that the costs of the Supplier of Last Resort process, which has been added to regressive standing charges on electricity bills, has increased affordability challenges for the most vulnerable customers, at the most difficult time. This is wrong. We welcome Ofgem's recognition of the impact that regressive standing charges have on households and its review of how the Supplier of Last Resort levy is distributed. However, even if these costs are recouped on a usage basis, fuel poor, low income, and vulnerable customers with high energy demand, will still be hit hard.**

77. ***We recommend that the Government and Ofgem reform the Supplier of Last Resort process so that the costs are more fairly recouped whether through general taxation or energy bills.***

Improving the process for consumers

78. Since July 2021, 2.4 million customers of 28 failed suppliers have been transferred to a new supplier.[208] Gillian Cooper, Head of Energy Policy, Citizens Advice, explained that its polling found that one in five of these customers was dissatisfied with their experience

200 From the outset of the energy pricing crisis, stakeholders called for Ofgem to delay the recovery of supplier failure costs. Ofgem told us that it considered options to recover the costs over a longer timeframe, however, "given the package of support that Government announced in February 2022, which included spreading the costs over a longer period, this was not taken forward". It has also considered third-party financing of the costs of supplier failure but ultimately determined that this would result in an increase in consumer bills. Ofgem (EPM0030)

201 Ofgem, 'Price Cap - Decision on reflecting change to gas SoLR levy costs in the Default Tariff Cap', 4 February 2022, p10

202 ibid.

203 ibid., p 3

204 National Energy Action (EMP0045)

205 ibid.

206 Ofgem, 'Open letter: Review of how the costs of supplier failure are recovered', 7 July 2022

207 ibid.

208 National Audit Office, *The energy supplier market*, 22 June 2022, p 22

of the process.[209] This was due to customers being transferred to the energy price cap from the more favourable, but artificially low, fixed-term tariff offered by their failed supplier;[210] and delays in receiving final bills, credit refunds and new account information.[211] A lack of clarity as to how the final bill was calculated resulted in "shock bills and people being out of pocket".[212]

79. Martin Lewis, Chair of Money Saving Expert, highlighted a "stark" difference in how different suppliers handled the mass transfer of customers.[213] A survey undertaken by Money Saving Expert found that more than 40% of those who switched to Octopus Energy rated the experience as "great", compared to just 2% of customers who transferred to British Gas.[214] Nine in 10 customers who were moved from PFP Energy or People's Energy to British Gas said they had been waiting more than four months to get their credit balances back.[215] Chris O'Shea, CEO, Centrica (British Gas), explained that the "administrator of the failed company is not incentivised to do anything quickly. They would not give us any information on credit balances", meaning customers could not retrieve their own money in a timely fashion.[216] Similarly, Simone Rossi, CEO, EDF, described EDF's experience with administrators as "awful" which only "aggravated an already-difficult situation".[217]

80. Citizens Advice told us it had received reports of administrators mistreating customers in debt by making large demands for payment at short notice, and that existing repayment plans with the failed supplier were being "torn up".[218] It noted that when a company fails, customers lose the debt protections set out in the supplier licence because administrations have no obligation to abide by these rules.[219] In May 2022, 43% of contacts to Citizens Advice about supplier failures related to administrators pursuing debt, compared to 10% of cases in November 2021.[220] Citizens Advice called on both the Government and Ofgem to improve the SoLR process to ensure that customers in debt are better protected.[221] National Energy Action recommended that when a customer is transferred to a supplier of last resort their debt to the failed company is also transferred, so the customer in debt would still be protected by the supplier licence conditions.[222]

209 Q159 [Gillian Cooper]
210 The National Audit Office in its report, *The energy supplier market*, found that this cost the average customer an estimated £30 per month more for the remainder of the duration of their original contract. National Audit Office, *The energy supplier market*, 22 June 2022, p 7
211 Q159 [Gillian Cooper]
212 ibid.
213 Money Saving Expert, 'British Gas is the worst firm to be moved to if your energy firm goes bust, MSE survey of 12,000 people shows', 7 March 2022
214 ibid.
215 ibid. PFP or Peoples Energy collapsed in September 2021.
216 Q254 [Chris O'Shea]
217 Q254 [Simone Rossi]
218 Q159 [Gillian Cooper]. The National Audit Office noted in its report, *The energy supplier market*, that in November 2021 the Insolvency Service wrote to the professional bodies for insolvency practitioners to encourage them to actively consider continuing previous arrangements that the failed energy suppliers may have had with vulnerable customers. National Audit Office, *The energy supplier market*, 22 June 2022, p 25
219 The gas and electricity supply licences set out the conditions that all energy suppliers must adhere to in order to supply energy to domestic and non-domestic consumers. For more information, see: Ofgem, 'Licences and licence conditions', accessed 27 June 2022
220 The average debt being chased by administrators was £370. Citizens Advice, *Back from the Brink?*, 11 July 2022, p 11
221 Citizens Advice (EPM0014)
222 National Energy Action (EPM0011)

81. In a letter dated 27 June 2022, Ofgem told us that administrators were "bound by the same rules as suppliers themselves when pursuing a debt".[223] It pointed to requirements introduced in January 2021 in the terms and conditions of customers' energy contracts ensuring that debt recovery practices will be executed in line with the supplier licencing conditions. However, this safeguard does not apply to customers in debt who signed contracts with the failed supplier before the January 2021 requirement was introduced.

Overhaul of the SoLR process?

82. E.ON called for the SoLR process to be "rapidly overhauled". It noted that "under the SoLR regime too much of the cost of supplier failure is borne by customers and too little by investors".[224] This discourages investors from properly scrutinising their investments, and instead encourages new entrants to pursue unsustainable business models.[225] E.ON stated that reform to the process should ensure that investors effectively scrutinise business plans and help provide confidence to the market over the enduring viability of energy suppliers.[226]

83. In a letter dated 27 June 2022, Ofgem noted its concern that suppliers of last resort cannot access the financial benefit of the hedged positions of failed suppliers to reduce the burden of wholesale costs that are paid for by all customers.[227] Ofgem explained that this is because "in the money hedges,[228] once the value is realised, can result in a financial surplus at the end of the insolvency process which is returned to shareholders, instead of being applied to reduce wholesale market costs that are mutualised".[229] It outlined solutions to reduce the mutualised costs including making the SoLR or the SoLR levy fund a "creditor" of the business for the purposes of the Insolvency Act; amending the Companies Act to make consumer interests equivalent to other stakeholders; or a transfer scheme to transfer hedging agreements from one supplier to another when an energy supplier is facing insolvency.[230] However, the Secretary of State strongly opposed the suggestion of making the SoLR levy a creditor. He said:

> If that were the case and creditors were not going to get their debt repaid in a system like that, nobody would ever invest in these companies and these companies would never be able to raise any capital whatsoever. You would essentially kill the industry.[231]

84. In its report, *The energy supplier market*, published in June 2022, the National Audit Office assessed the effectiveness of the SoLR process and recommended that BEIS and Ofgem:

> review and update the SoLR process in response to issues which have emerged over the last year. This includes issues that arose in its implementation,

223 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
224 E.ON (EPM0013)
225 ibid.
226 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
227 ibid.
228 Hedges are brought against the price of energy increasing. The price of energy has increased making the hedge 'in the money'. This means a profit can be made on the hedge as it was designed to cover the loss made on the price of energy increasing. In this case, the regulator is concerned that when a company goes bust (and therefore no longer needs to buy energy), the profit on the hedge can be shared amongst shareholders, rather than being used to cover the losses due to increased wholesale prices.
229 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
230 ibid.
231 Q572 [Kwasi Kwarteng]

such as uncertainty over credit balances caused by delays in the transfer of customer information and addressing the imbalance of risk between suppliers and consumers, which currently enables suppliers to exit from the market with little risk and even potentially to make a financial return.[232]

85. **The Supplier of Last Resort process ensured that customers of failed energy companies maintained their supply. However, customers carried the risk of failure, while suppliers exited facing minimal costs, and in some cases, even made a financial return. Suppliers of last resort raised pressing concerns about administrators of failed energy companies not acting in the best interest of customers. The delay in sharing customer information to suppliers of last resort, which led to inaccurate bills and interruptions in retrieving credit balances, is unreasonable.**

86. ***We support the National Audit Office's recommendation that the Government and Ofgem review and subsequently update the Supplier of Last Resort process to address the problems that arose over the last year, including delays in the transfer of customer information by administrators which prevented the retrieval of credit balances, the treatment of customers in debt, and the imbalance of risk between customers and suppliers.***

The Special Administration of Bulb Energy

87. In November 2021, after its attempts to secure rescue financing failed, Bulb Energy, Britain's seventh largest energy supplier which provided approximately 1.6 million households with electricity and gas, collapsed.[233] With the approval of the Secretary of State, Ofgem implemented the Special Administration Regime (SAR) for the first time. Administrators took over the operation of the company and the Government, using taxpayer money, provided the financial backing to ensure the continuity of supply for Bulb's customers.

88. Bulb's business strategy was to grow organically, increasing customer numbers annually. It planned on tolerating losses until customer numbers had grown enough to push it into making profits.[234] Despite reaching 1.6 million customers and sales of £1.5 billion, according to its latest accounts, Bulb never made a profit.[235] From 2017 until entering administration in November 2021, Bulb made combined losses of over £323 million.[236] By October 2021, it accumulated net liabilities of £326 million.[237]

89. Larger energy suppliers typically hedge by buying energy for customers at least eight months in advance, and more risk averse suppliers hedge for longer periods.[238] Larger

232 National Audit Office, *The energy supplier market*, 22 June 2022, p 12

233 The SoLR process was not designed to cope with the failure of energy suppliers as big as Bulb. This would have placed significant pressure on the industry systems required to complete customer transfers, led to poor outcomes for Bulb's customers, distorted competition as a large number of customers could be transferred to another supplier based on Ofgem's decision and add a significant financial burden to the SoLR levy. For more information, see: Ofgem, Letter from CEO to Secretary of State, 19 November, 2021

234 Bulb Energy Ltd, *Annual Report and Accounts for period ending 31st March 2020*, p 1

235 ibid., p 13

236 Bulb Energy Ltd, Annual Reports and Accounts, 2017–2020. Teneo, *Joint Energy Administrators proposal*, p 7

237 ibid.

238 For example, EDF told us that "the design of the current wholesale allowance methodology in the price cap means suppliers must hedge 8 months in advance, exposing them to large volume risks arising from increasing prices and falling prices, without offering any additional value for customers". For more information, see: EDF Energy (EPM0031)

suppliers were therefore insulated from the initial wholesale price spikes. Bulb told us that it had a rolling six-month hedging policy.[239] As wholesale gas prices rose in 2021, Bulb attempted to hedge its supply costs over a longer period.[240] It failed to secure these longer hedges, as it had inadequate cash reserves required to secure the longer-term contracts.[241] It is unclear what proportion of Bulb's energy in the six months prior to the administration was hedged or bought in advance.[242] Despite its inadequate hedging and cash reserves, Hayden Wood, CEO, Bulb, told us that in response to financial data it provided to Ofgem as part of the Covid-19 reporting, up until Autumn 2021, Ofgem described Bulb as a "well-run supplier".[243]

90. The National Audit Office report, *The energy supplier market*, published in June 2022, reported that BEIS spent £0.9 billion on Bulb in 2021–22.[244] According to the 2022–23 Main Estimates, £0.92 billion has been allocated for the Special Administrative Regime.[245] However, the costs to run Bulb in 2022–23 may go up or down depending on the wholesale price of energy and the length of time Bulb remains in the SAR.[246] Administrators expected a sale of Bulb by Spring 2022, but this has failed to materialise.[247] If the sale fails to recover all the costs of running Bulb, it is unclear how the remaining costs will be recouped. BEIS has the power to recover the final net cost through a levy on consumer bills, at a time of its choosing, or to fund it via general taxation.[248] Witnesses to our inquiry agreed that instead of passing the costs of the Special Administration of Bulb onto already stretched energy bills, the costs should be recovered through taxation.[249]

91. On 7 March 2022, Sky news reported that the Government was not pursuing a hedging strategy for Bulb while under the SAR.[250] It was estimated that this decision, in combination with rising wholesale gas prices, could potentially cost the taxpayer an extra £1 billion.[251] On 16 March 2022, we wrote to the Secretary of State seeking clarity on Bulb's hedging strategy.[252] The Secretary of State did not directly answer this question, but pointed to the Treasury's agreement to the approach:

> the power purchasing strategy was developed using cross-Government expertise and was jointly agreed between BEIS and [HM Treasury]. It is consistent with *Managing Public Money*[253] guidance. The Special

239 Bulb (EPM0021)
240 Bulb Energy Ltd, Annual Reports and Accounts, 2017–2020; Teneo, *Joint Energy Administrators proposal*, p 7
241 Bulb (EPM0021)
242 Hayden Wood, in oral evidence, revealed to us that Bulb sold hedges for the second half of December, see: Q280 [Hayden Wood]
243 Q15 [Jonathan Brearley]; Q309 [Hayden Wood]
244 National Audit Office, *The energy supplier market,* p 35. The 2021–22 figure is currently unaudited and will be confirmed in the Department's accounts.
245 Department for Business, Energy and Industrial Strategy, 'Main Estimates Memo Annex', Table A(i)(ii)
246 National Audit Office, *The energy supplier market,* p 35
247 An article published by Bloomberg stated that Octopus Energy is the only bidder left for Bulb. 'Octopus Is Only Bidder Left for Failed UK Energy Supplier Bulb', Bloomberg, 20 July 2022
248 National Audit Office, *The energy supplier market*, p 35
249 See for example: Age UK (EPM0009); Octopus Energy (EPM0010); Citizens Advice (EPM0014); Centrica (EPM0024)
250 'Taxpayers face £3bn Bulb bill as Russian invasion sends gas prices soaring', Sky News, 7 March 2022
251 ibid.
252 Business, Energy and Industrial Strategy Committee, Letter from Chair to Secretary of State, 16 March 2022
253 Managing Public Money (MPM), produced by HM Treasury, determines principles for how public resources should be managed. MPM allows for hedging instruments to be used provided HMT are consulted and approve.

> Administrator of Bulb is obligated to minimise costs of the administration process, and we continue to engage closely with them throughout to ensure taxpayer value is maximised.[254]

92. The Secretary of State later confirmed that no hedging strategy was implemented for Bulb whilst it has been under the SAR.[255] Bulb's CEO, Hayden Wood, told us that he was not involved in discussions around hedging and that those were between the administrator and BEIS.[256] The Secretary of State described hedging as "very risky":

> essentially, you're taking a bet or you're trying to insure yourself against price movements, and that insurance […] costs money [..], and in terms of managing public money the Treasury rightly doesn't think that that's the business of what the taxpayer should be doing.[257]

Energy suppliers are exposed to swings in the market price of energy. The statutory price cap restricts suppliers from passing on the full price of energy when wholesale market prices are volatile. Prudent energy suppliers therefore hedge their energy costs to the extent of the price cap.[258] This enables them to guarantee a price for their energy in advance and protect them from further price rises. By not hedging future energy purchase costs at Bulb, taxpayers are exposed to the risk of price increases in the wholesale energy market. In the six months since the taxpayer took ownership of Bulb, administrators have spent £329 million more on purchasing unhedged wholesale energy than they have generated through sales to customers.[259] We cannot scrutinise the full extent of the impact of the decision not to hedge as there is a lack of transparency over how the Government is purchasing energy on the wholesale market.

93. The regulator's position is clear: energy suppliers must have a comprehensive hedging regime in place to ensure their financial sustainability.[260] *Managing Public Money* explicitly permits public sector organisations to implement hedging instruments, providing they assess value for money.[261]

94. **The Special Administration Regime has been used for the first time to deal with the failure of Bulb Energy, leaving taxpayers exposed to billions of pounds worth of costs. The decision not to implement a hedging strategy may have led to the sale of Bulb being less desirable and significantly increased costs to taxpayers.**

95. ***We recommend that the Government implements a hedging strategy at Bulb Energy. In the meantime, we ask that the Government provide us with detailed analysis of the cost implications for BEIS and the taxpayer of its decision not to purchase hedges to date.***

254 Department for Business, Energy and Industrial Strategy, Letter from Secretary of State to Chair, 1 April 2022
255 Q584 [Kwasi Kwarteng]
256 Q286–289 [Hayden Wood]. It is that noteworthy Hayden Wood, the CEO and therefore a chief decision-making officer, was not involved in these discussions around hedging or in the final decision, despite continuing to be paid his full market-rate salary of £250,000, which during the SAR is being paid for by the taxpayer. On 30 June 2022, the BBC reported that Hayden Wood would depart as CEO of Bulb by the end of July. 'Bulb boss Hayden Wood to step down from collapsed energy firm', BBC, 30 June 2022
257 Q584 [Kwasi Kwarteng]
258 'Blame game begins after the failure of Bulb Energy', The Times, 24 November 2021
259 Teneo, Joint energy Administrator's Progress Report to Creditors, 24 June 2022, p 9. From 24 November 2021 to 23 May 2022, Bulb received £1.18 billion from customers, and spent £1.51 billion on purchasing energy.
260 Q487 [Jonathan Brearley]
261 HM Treasury, *Managing Public Money,* p 41, 5.12

96. ***We recommend that, given the size of Bulb, the costs of the Special Administration Regime are paid through general taxation, as opposed to recouping the costs from already stretched energy bills. The Government should undertake a review of the Special Administration Regime to consider how to reduce the cost exposure to the taxpayer in future, and report to this Committee within the next six months on the lessons learned and any required reforms. We suggest, as a minimum, that the Treasury guidance is amended to make it clear that energy suppliers in the Special Administration Regime are presumed to be permitted to hedge.***

4 Reforms to the supplier market

97. Following the collapse of energy retailers and the subsequent costs to households described in chapters two and three, Ofgem published a raft of proposals to boost financial resilience in the supplier market.[262] These proposals could have long-lasting and structural impacts on competition in the market and were met with mixed response from the sector. Despite the Oxera report highlighting Ofgem's failure to carry out robust quantitative impact analysis to support key decisions,[263] we heard worrying reports from some suppliers that Ofgem is making the same mistake all over again. Throughout our inquiry, witnesses also called for fundamental, longer-term reforms to the design of the market through the revision of the energy price cap and the update to the Government's Energy Retail Market Strategy.[264]

Boosting suppliers' financial resilience

98. In December 2021, Ofgem published an Action Plan on the financial resilience of suppliers with the objective to implement tougher and tighter controls.[265] The measures included:

a) Improved collection and reporting of information on suppliers' risk management strategies, and their approach to hedging, customer credit balances, and pricing. Ofgem will use this data to monitor whether suppliers are managing risk appropriately;

b) Stress testing of suppliers[266] to ensure they are robust to various scenarios. Where Ofgem identifies concerns, it will work with suppliers to develop improvement plans and, where there is high risk to consumers, take compliance and enforcement action;

c) Greater supervision of industry staff in significant roles, with strengthened assessments for entry to the market and on growth;[267]

d) Ringfencing of all material economic and operational assets within the company to ensure suppliers own, control, and have the economic and legal rights to the key assets needed to run their business, including hedges;[268]

262 Ofgem, 'Action plan on retail financial resilience', 15 December 2021; Ofgem (EPM0030); Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022

263 See paragraph 33

264 Department for Business, Energy and Industrial Strategy, 'Future of the energy retail market: call for evidence', 21 December 2021

265 Ofgem, 'Action plan on retail financial resilience', 15 December 2021

266 This commenced from January 2022.

267 These changes came into effect from 1 April 2022.The changes require a supplier to pause domestic customer onboarding once it reaches the 50,000 and 200,000 domestic customer milestones until Ofgem has completed any necessary milestone assessment and the supplier has taken any necessary action. Suppliers will be required to notify Ofgem about significant planned commercial developments and senior personnel changes a defined period in advance of them occurring, to allow Ofgem time to carry out an assessment of the impacts these changes may have on consumers and for any necessary action to be taken.

268 In its written evidence, Ofgem stated "following the collapse of energy retailers, Ofgem identified certain arrangements where suppliers do not own, control, or have the economic or legal rights to the key assets needed to run their business. This results in consumers and taxpayers bearing an unfair and disproportionate amount of risk of mutualised costs. This is because such arrangements can limit the resources a regulated supplier can rely on to meet its obligations and financial liabilities, increasing the amount consumers or taxpayers may have to contribute following the supplier's failure". Ofgem (EPM0030)

e) Measures to ringfence renewables levies and customer credit balances from firms' balance sheets.[269] (The proposal to ringfence customer credit balances was particularly contentious among stakeholders and will be discussed in detail in paragraphs 107–119); and,

f) A new capital adequacy framework[270] which will expect new entrants to have investment upfront and on an ongoing basis to ensure firms are resilient to market risks.

99. Citizens Advice told us that it is supportive of Ofgem's plans to boost financial resilience and impose prudential regulation in the market and that "it is about time" these measures are brought forward.[271] The CEOs representing the legacy suppliers also welcomed the proposals. Simone Rossi, CEO, EDF, told us that, "Ofgem have been listening to all of us. It might have been a bit of a cacophony sometimes […] there has been a lot of convergence among us on what is in the best interests of a well-functioning market".[272] Chris O'Shea, CEO, Centrica, told us that is had been "consistently calling" for four things for "quite some time": ring-fencing customer credit balances, directors of energy suppliers passing a fit and proper person test, proper capital adequacy rules and proper risk management reviews.[273] These requests are reflected in Ofgem's proposals. He concluded that "we need to treat energy retailers like financial services providers".[274]

100. In contrast to legacy suppliers, challenger firms expressed less satisfaction with Ofgem's engagement and less confidence in its ability to implement the proposals in a way that does not hinder competition and drive up unnecessary costs for suppliers and billpayers.[275] Prior to the energy pricing crisis, there were around 50 suppliers operating in the market, but in May 2022, 24 suppliers were active in the market and just 11 of these had a market share above 1%.[276] Considering that these suppliers demonstrated that their risk management strategies were sufficient to withstand the turbulence of the last year, combined with Ofgem's already strengthened entry requirements, Octopus Energy warned that the new requirements need to be "proportionate to the likelihood and impact of retailer failure, and that an over correction does not create a fortress retail".[277] Octopus Energy stated that Ofgem's proposals risk being "disproportionately prescriptive and burdensome" and that regulations "are more likely to enable competition, innovation and great customer outcomes if they are principle based".[278]

101. Simon Oscroft, CEO of So Energy, warned that "regulating your way out of financial resilience by putting more controls in is potentially problematic".[279] So Energy explained that the focus is misplaced:

269 Ofgem published proposals on supplier treatment of customer credit balances and options it is considering in respect of protecting payments towards the Renewables Obligation. Ofgem, *Policy Consultation: Strengthening Financial Resilience*, 20 June 2022
270 The *Policy Consultation: Strengthening Financial Resilience* also included early thoughts on possible approaches to capital adequacy.
271 Q156 [Gillian Cooper]
272 Q251 [Simone Rossi]
273 Q250 [Chris O'Shea]
274 ibid.
275 Octopus Energy (EPM0042); So Energy (EPM0025); OVO (EMP0046)
276 Ofgem (EMP0044)
277 Octopus Energy (EPM0010)
278 ibid.
279 Q177 [Simon Oscroft]

> In a market where underlying margins are negative, no amount of regulation can improve supplier resilience. Instead, Ofgem needs to focus its attention on changing the competitive dynamics of the market to encourage suppliers to operate more financially sustainable business models.[280]

102. Suppliers on both sides of the debate generally agreed that Ofgem's focus should be on arrangements to incentivise retailers to be properly capitalised and prudently run.[281] The Oxera review noted that "the act of raising capital prior to entry and on an ongoing basis will incentivise scrutiny and due diligence of a firm's business plans as investors will want to assure themselves of its prospective and ongoing viability".[282] Therefore, increasing capital adequacy will reduce moral hazard and incentivise suppliers to properly hedge and price tariffs in a sustainable way. However, some suppliers expressed concerns about Ofgem's ability to design a capital adequacy framework[283] and others were frustrated by its slow progress to do so.[284] Thus far, Ofgem has only produced "some early thoughts on possible approaches to capital adequacy".[285]

103. Considering Ofgem's previous failure to identify risks in the energy market, even after collecting comprehensive data from suppliers in relation to their financial health,[286] we lack confidence in its current ability to undertake market monitoring and stress testing. Our concern about the adequacy of expertise and skills within Ofgem is validated by its high staff turnover, which reached 22% in 2021.[287] Ofgem told us that, in April 2022, it submitted a request to HM Treasury for further funding for 2022–23. This is intended to strengthen the resourcing of its enforcement, retail compliance, retail intelligence and market stability, as well as its financial resilience and controls functions.[288]

104. **We support Ofgem's objective to ensure energy suppliers are well-capitalised and prudently run. If its plans to introduce a capital adequacy regime and improve its monitoring of suppliers' approach to risk management are executed effectively, these measures could reduce the moral hazard in the market and the cost of mutualisation, while stopping the level of unchecked and high-risk growth of suppliers previously seen in the market.**

105. ***Ofgem should publish detailed proposals that will ensure energy suppliers have a higher level of capital adequacy in the future which is in line with growth. Financial stress testing and monitoring of suppliers' risk management strategies should be conducted by Ofgem as standard. Where individual or systemic problems are identified, Ofgem should work proactively with suppliers to resolve them. We recommend that Ofgem upskills its workforce to ensure it has the appropriate expertise to implement these provisions in an effective and proportionate manner. We ask Ofgem to publish a plan on how it intends to do this.***

280 So Energy (EPM0025)
281 See for example: Centrica (EPM0024); Octopus Energy (EPM0010); E.ON (EPM0013)
282 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 26
283 So Energy (EPM0043)
284 Octopus Energy, Letter from Greg Jackson, CEO, Octopus, to Dame Meg Hillier MP, 23 June 2022. This letter is in relation to the Public Accounts Committee's Regulation of Energy Suppliers inquiry.
285 The Policy Consultation: Strengthening Financial Resilience included early thoughts on possible approaches to capital adequacy. Ofgem, *Policy Consultation: Strengthening Financial Resilience*, 20 June 2022
286 As described in paragraph 90 in regard to Bulb.
287 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
288 ibid.

Customer credit balances

106. As discussed in chapter two, Ofgem's failure to monitor suppliers' capital adequacy and their use of customer credit balances allowed energy companies to become overly reliant on customers' money. When companies fail, customer credit balances are mutualised, so the failed supplier is not exposed to the risk of using customers' money.[289] Ofgem explained that the use of customer credit balances to fund companies' commercial activities itself "contributed to unsustainable business models and the overall systemic risk in the supply sector".[290]

107. However, protecting customer credit balances is a complex issue which Ofgem has failed to reach a conclusion on for several years. This is demonstrated by the slew of consultations undertaken on the matter since 2018 and subsequent U-turns in policy.[291] Despite previously concluding that the costs of ringfencing credit balances outweighed the benefits and risked the distortion of competition,[292] Ofgem's Action Plan on suppliers' financial resilience, published in December 2021, outlined plans to do just that.[293]

108. Current guidance, under the Financial Responsibility Principle, stipulates that suppliers should not be "overly reliant" on credit balances for working capital.[294] On 14 April 2022, Ofgem published an open letter to domestic energy suppliers with an update to its Action Plan, which set out new proposals to prohibit the use of customer credit balances, which would replace this guidance.[295] To ensure compliance with the prohibition, Ofgem suggested holding the payments in insolvency-remote vehicles[296] and a requirement to protect an amount equal to the gross credit balances net of unbilled

289 Analysis by Citizens Advice of contacts to its consumer service helpline shows customers of failed companies had an average credit balance of £353 at the point of failure. Citizens Advice, *Market Meltdown*, December 2021

290 Ofgem, *Update to December Action Plan: Customer Credit Balances and Renewables Obligation protection,* 14 April 2022

291 As part of the 2018 Supplier Licensing Review, Ofgem consulted on options to protect credit balances including: imposing maximum limits on credit balances; restricting suppliers from offering terms that incentivised customers to maintain credit balances; and holding credit balances in separate ring-fenced accounts. Following that consultation, in October 2019, Ofgem proposed the introduction of a requirement for suppliers to protect at least 50% of their customer credit balances in the event of failure. Following further consultation in March 2021, Ofgem concluded that the proposal risked distorting competition and the costs outweighed the benefits. Instead, Ofgem proposed a package of policies which would require suppliers to refund credit balances above £0 at the end of each contract year and set a threshold under which the amount of credit balances that suppliers would be permitted to hold would be limited, with suppliers protecting customer prepayment balances above a fixed threshold. The energy price crisis began before the policies were implemented.

292 ibid.

293 Ofgem, 'Action plan on retail financial resilience', 15 December 2021

294 The Financial Responsibility Principle required suppliers to be able to meet its financial obligations while not being overly reliant on customer credit balances for its working capital. For more information see: Ofgem, *Financial Responsibility Principle guidance*, 22 March 2021; Ofgem (EPM0030)

295 Ofgem, *Update to December Action Plan: Customer Credit Balances and Renewables Obligation protection,* 14 April 2022

296 Insolvency remote is where funds are held or covered by a protection mechanism designed to ensure that those funds, upon supplier failure, do not form part of the supplier's insolvent estate but instead are preserved for the benefit of Ofgem (or its nominee(s), such as an incoming Supplier of Last Resort) to meet a suppliers' costs at risk of being mutualised such as the customer credit balances it held at the time of failure.

consumption.[297] This is intended to reflect the amount at risk of mutualisation. On 22 June 2022, Ofgem published a *Policy consultation: strengthening financial resilience,* which sought stakeholder views on its proposals.[298]

109. Challenger suppliers told us that Ofgem's proposals for companies to ringfence credit balances are poor value for money, anti-competitive and risk further destabilising the market.[299] Octopus Energy noted that many well-run companies have higher debit balances[300] than credit balances for most of the year.[301] Ringfencing credit balances would mean that companies would require significant additional capital to further finance debit balances, adding cost to all bills.[302] Octopus Energy warned that this would be disproportionately expensive for larger privately held companies and prohibitive for smaller ones, particularly in light of current market conditions and regulatory risk, thereby skewing competition in favour of the legacy suppliers. This is because larger suppliers have large parent companies that can be called upon to provide assurances or cheap credit lines.[303] This may result in larger suppliers under-pricing challenger suppliers and risks distorting competition in the market.[304] Greg Jackson, CEO, Octopus Energy, stated:

> the regulator failed to recognise the difference between fly by night chancers and serious challenger retailers. It allowed the former to thrive, creating an unsustainable market. It still hasn't learnt the difference and, in its attempts, to curtail the former, risks killing the latter, creating a moribund market of turgid incumbents.[305]

110. OVO agreed with Octopus Energy, stating that, in practice, an independent energy supplier would need to raise a blend of debt and equity to support this funding requirement.[306] Furthermore, that deteriorations in free cash flow will increase the risk of supplier failure, rather than decrease it, and restrict the ability of suppliers to raise capital and invest in net zero.[307] So Energy also highlighted the tension between Ofgem's plans to require greater capital adequacy and ringfencing customer credit balances and Renewables Obligation payments.[308] It noted that financial resilience means having more capital on hand to respond to shocks to the market, but ringfencing means putting existing sources of capital beyond the supplier's reach.[309] This necessitates the supplier to replace it with more expensive alternative sources of capital and "the only reasonable way of resolving this tension is by increasing prices".[310]

297 Gross credit balances net of unbilled consumption reflects where a customer has paid more to the supplier than the value of the energy they have consumed, but not necessarily been billed for. To calculate this, charges for energy consumed (and standing charges) since the last bill was raised are deducted from the credit balance on the customer's account.
298 Ofgem, *Policy Consultation: Strengthening Financial Resilience*, 20 June 2022
299 Octopus (EPM0042); So Energy (EPM0025); and OVO (EMP0046)
300 i.e. money owed to the supplier by customers
301 Q147 [Rachel Fletcher]
302 Octopus Energy (EPM0042)
303 Octopus Energy told us that there is a 2-to-4-fold spread in the cost of capital across the legacy and smallest new entrant suppliers. Octopus Energy added that given current market conditions, it is not apparent that all suppliers will be able to obtain the cash or letter of credit required for ringfencing. Octopus Energy (EPM0042)
304 Octopus Energy (EPM0042)
305 ibid.
306 OVO (EMP0046)
307 ibid.
308 So Energy (EPM0025). Ringfencing Renewables Obligation payments is discussed in more detail from paragraph 120.
309 ibid.
310 ibid.

111. Octopus Energy estimated that Ofgem's proposals to ringfence credit balances may add around £15 a year to individual bills at today's interest rates (July 2022) and that this could rise to £30 in a higher rate environment.[311] Even at current rates, this is two times higher than the £7.40 expected cost of honouring the customer credit balances of the recent 29 failed suppliers.[312] Over the last four years, credit balances of failed companies have added an average of £1.90 per year.[313] Octopus Energy stated that if credit balance mutualisation on supplier failure is no longer deemed acceptable, industry insurance funds (which are used in other industries, such as the ATOL scheme in the travel industry and the Financial Services Compensation Scheme which protects customer bank balances) would be more cost effective, and less distorting to competition, than Ofgem's ringfencing proposals.[314]

112. On the other hand, larger suppliers welcomed Ofgem's proposal.[315] In their view, the energy industry is a market that requires substantial working capital, and the answer is not to avoid these costs by "gambling"[316] with customers' money which was described as "scandalous"[317] by Chris O'Shea, CEO, Centrica. He told us that this is a "risky business" and "if you don't have enough capital and you can't raise the capital you need, you don't belong in this market".[318] He added that "the idea that you have transitional provisions should probably not be entertained".[319] E.ON challenged claims that ringfencing customer credit balances will materially increase customer bills and stated that the cost of the proposal is "often grossly overstated, and the benefits significantly understated".[320] Furthermore, that ringfencing customer credit balances will encourage less extreme risk taking and more sustainable business models, reducing the overall cost of failure.[321]

113. Alongside the *Strengthening financial resilience* consultation, Ofgem published an impact analysis it commissioned NERA (an economics consultancy) to produce to quantify the potential impacts of its proposed intervention to ringfence customer credit balances and Renewables Obligation receipts.[322] NERA calculated the cost to suppliers of insuring customer credit balances and Renewables Obligation payments as £1.80 per customer (on the assumption that suppliers' credit ratings fall to reflect the lower risks in their business given they can no longer access customers' money) and that the benefits (encouraging less risk taking) are over £20 per customer.[323] In a letter to us dated 27 June 2022, Ofgem said that the NERA review "shows that we believe that there is a net consumer benefit that reasonably justifies the introduction of these protections".[324] Ofgem's letter added that its decisions taken to boost the financial resilience of the market "have been underpinned by extensive consultation, detailed and robust analysis, including, in some cases, impact

311 Octopus Energy (EPM0042)
312 ibid.
313 ibid.
314 Octopus Energy estimates that its proposed insurance scheme would add around £2 to individual bills per year.
315 Q248-Q250 [Michael Lewis, Keith Anderson, Chris O'Shea, Simone Rossi]; E.ON (EPM0013); Scottish Power (EPM0029)
316 Q253 [Michael Lewis]
317 Q250 [Chris O'Shea]
318 ibid.
319 ibid.
320 E.ON (RES0005)
321 ibid.
322 NERA Economic Consulting, *Proposed Reforms on Protecting Credit Balances and Renewables Obligations – Evaluating Cost and Benefits Prepared for Ofgem*, 17 June 2022. Proposals to ringfence Renewables Obligation payments will be discussed from paragraph 120.
323 ibid.
324 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022

assessments that we have published–and we are confident that this evidence, alongside the rationale laid out in our consultations, demonstrate[s] that our decisions are in the interests of consumers”.[325]

114. However, Greg Jackson, CEO, Octopus Energy, warned that the retrospective “impact assessment is fundamentally flawed with breathtakingly inaccurate assumptions”.[326] Furthermore, that the positive case for ringfencing credit balances rests on “entirely unrealistic assumptions about the cost of capital”, assuming a cost of capital which is five to 20 times lower than realistic.[327] Octopus Energy added that it takes no account of the fact that the vast majority of credit balances are reimbursed by acquiring suppliers rather than being mutualised, or that for large suppliers, credit balances survive into Special Administration (as with Bulb) so are not mutualised at all.[328] Greg Jackson, CEO, Octopus Energy stated that the:

> flaws in their analysis further distorts the cost-benefit of ringfencing by hundreds of millions of pounds. Both the overestimate of the benefit and the gross underestimate of the cost of ringfencing mean the impact analysis which Ofgem has produced is fundamentally flawed. Correcting these errors results in a completely different conclusion.[329]

115. OVO and So Energy agreed with Octopus Energy that there were gross errors in the way the analysis was put together, resulting in a significant underestimate of the cost to ringfence customer credit balances.[330] The NERA report made clear that the cost of raising additional capital to facilitate the ringfencing of credit balances and Renewables Obligation payments will vary dramatically between suppliers. It assumed that the cost of this will fall as suppliers become more financially resilient but did not indicate how long this might take to achieve. So Energy noted that adjusting a company’s credit rating is a gradual process which would likely take several years of sustained profitability.[331] OVO highlighted that the analysis expected the supplier failure rate seen between 2016–21 to continue in the future, despite the mutualisation costs being driven by a large number of unhedged and unsustainable energy suppliers, which have now exited the market.[332]

116. So Energy stated “at no point in Ofgem’s consultation is there a recognition that a difficult decision needs to be made regarding what suppliers Ofgem is willing to save and what suppliers Ofgem is willing to see fail”.[333] Furthermore, that this “flies in the face of the Oxera report’s recommendations, which calls for Ofgem to explicitly account for impacts on consumer interest and effective competition when making policy trade-offs”.[334] So Energy warned that Ofgem is rushing its proposals through on an unreasonably short time horizon and is failing to consider the serious concerns raised by challenger suppliers.

325 ibid.
326 Octopus, Letter from Greg Jackson, CEO, to Dame Meg Hillier MP in relation to the Public Accounts Committee’s Regulation of Energy Suppliers inquiry, 23 June 2022
327 ibid.
328 ibid.
329 ibid.
330 So Energy (EPM0043); OVO (EMP0046)
331 So Energy (EPM0043)
332 OVO (EMP0046)
333 ibid.
334 ibid.

It stated that, "the fact that Ofgem have issued a 100+ page consultation with associated 100+ page NERA report over the summer and provided suppliers with just four weeks to respond points towards a "box ticking exercise".[335]

117. **Our first priority is to ensure that customer credit balances are protected, so that in the event of a supplier failure, customers are always able to recover the credit they have built up. Our second priority is to ensure that any policies put in place to secure this also prevent an increase in energy bills. We agree that some energy suppliers have taken high risk decisions on the basis that they were spending their customers money and not their own. Any new regulation on the holding of customer credit balances must carefully balance these two priorities whilst not distorting competition between retailers.**

118. ***Ofgem must publish a more robust impact analysis of its proposals for energy suppliers to ringfence customer credit balances. We expect the impact analysis to be based on evidence received from suppliers following an information request so that it is underpinned by facts, rather than assumptions. The analysis should include comparisons of Ofgem's preferred option with alterative options. It should be transparent and explicit about the implications of the proposal on energy bills and competition in the market, as well as the cumulative impact of this proposal and the other measures Ofgem is taking to boost resilience in the market. This analysis should be shared with this Committee with enough time for scrutiny before a final decision is taken by Ofgem and include an explanation of how Ofgem has balanced our priorities as set out above.***

Renewables Obligation payments

119. As noted above, Ofgem's Action Plan[336] on supplier financial resilience also outlined plans to prevent suppliers defaulting on their Renewables Obligation[337] payments. A number of suppliers that exited the market after July 2021 had significant outstanding Renewables Obligation liabilities. Suppliers should be collecting money towards the Renewables Obligation every month from consumers, but they only pay into the scheme once a year.[338] Witnesses told us that instead of saving the Renewables Obligation money levied on consumer energy bills throughout the year until obligations are due, some suppliers used this as free and risk-free working capital for wider business activities, helping under-capitalised businesses to grow rapidly.[339] When the Renewables Obligation was due, many of these suppliers failed to meet obligations and defaulted as a result.[340] Ofgem estimated that the total cost of mutualising these missed payments could reach £290 million.[341]

335 ibid.
336 Ofgem, 'Action plan on retail financial resilience', 15 December 2021
337 The Renewables Obligation requires licensed UK electricity suppliers to source a specified proportion of the electricity they provide to customers from eligible renewable sources. Ofgem issues Renewables Obligation Certificates (ROCs) to generators based on the type of technology that is used and the amount of electricity generated. Generators sell ROCs to suppliers or traders. All suppliers have to present ROCs corresponding to the amount of energy supplied, and suppliers that do not present enough certificates pay a penalty. Ofgem, 'Renewables Obligation (RO)', accessed 29/06/2022
338 Suppliers that choose to pay into the Renewables Obligation must do so in August.
339 For example see: Citizens Advice (EPM0014); RWE (EPM0012); So Energy (EPM0025); Scottish Power (EPM0029); Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
340 RWE (EPM0012)
341 National Audit Office, *The energy supplier market*, 22 June 2022

120. Citizens Advice told us that more frequent Renewables Obligation payment deadlines could help to expose when suppliers are in financial difficulty and reduce the cost of non-payment.[342] So Energy also stated that by changing the payment terms around the Renewables Obligation, suppliers will not be able to grow big businesses unprofitably and instead be able to achieve scale only through funding externally or being an underlying profitable company.[343]

121. In August 2021, Ofgem jointly consulted with BEIS on options for addressing the risk of Renewables Obligation payment defaults on supplier failure.[344] That consultation explored options for increasing the frequency of payments under the scheme. Witnesses, including Ofgem itself, called for the Government to bring forward legislation to implement this.[345] However, BEIS put these plans on hold in favour of issuing a further call for evidence later this year.[346] The rationale for this decision was unclear.[347] Following the Government's failure to act, Ofgem is consulting on the introduction of licence conditions that oblige suppliers to ringfence the payments they receive from customers in respect of their Renewables Obligation payments.[348] However, in a letter sent to us on 27 June 2022, Ofgem stated that these proposals:

> cannot provide full protection against poor business practices and may interfere with the incentives of the scheme. More frequent payments of the Renewables Obligation would fully resolve this issue–for example, quarterly payments. However, we cannot create quarterly payments without legislative underpinning.[349]

So Energy stated that Ofgem should prioritise ringfencing Renewables Obligations payments over credit balances. It warned that if implemented over a short period of time, Ofgem's proposals for greater capital adequacy, ringfencing of customer credit balances and the Renewables Obligation could put potentially good remaining suppliers in the market under further stress.[350]

122. **We found consensus from across the sector that the Government should bring forward legislation to increase the frequency of the Renewables Obligation payments. We ask the Government to set out the reasons for repeated delay and failure in this area in its response to this report.**

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342 Citizens Advice (EPM0014)

343 Q177 [Simon Oscroft]

344 BEIS and Ofgem, *Joint Consultation on addressing supplier payment default under the Renewables Obligation*, August 2021

345 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022

346 Business, Energy and Industrial Strategy, 'Consultation outcome: Renewables Obligation (RO): addressing electricity supplier payment default under the RO scheme', 20 April 2022

347 In response to the Joint Consultation on addressing supplier payment default under the Renewables Obligation, BEIS stated "Whilst the responses indicate a preference for addressing supplier payment default through a legislative requirement for more frequent settlement, some concerns were raised that such a move would have a negative effect on some suppliers". GOV.UK, 'Renewables Obligation (RO): addressing electricity supplier payment default under the RO scheme', 10 August 2021. See also Q574–576 [Rt Hon Kwasi Kwarteng MP]

348 Ofgem, *Update to December Action Plan: Customer Credit Balances and Renewables Obligation protection*, April 2022

349 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022

350 So Energy (EPM0043)

123. ***We recommend that the Government brings forward legislation to increase the frequency of Renewables Obligation payment deadlines. The Government and Ofgem should work together to implement this change in a way that provides a suitable period of adjustment for suppliers.***

The energy price cap

124. The energy price cap was introduced by the Government and Ofgem in January 2019 to prevent excessive charges by energy suppliers as a "temporary measure",[351] whilst effective competition was established to address what is described as the loyalty penalty.[352] The purpose of the price cap was to ensure that customers on expensive default tariffs[353] pay no more than a fair price for their energy, not to guarantee affordability. This fair price is determined by Ofgem's analysis of supplier costs. In its written evidence, BEIS stated that, "we want to see a market where effective competition removes the loyalty penalty and a market-wide price cap is no longer necessary".[354]

125. Witnesses expressed a range of views on the performance of the energy price cap under stable market conditions. On the one hand, it was suggested that the price cap has contributed to a structurally loss-making market, "eroded investor confidence", and not allowed for a reasonable rate of return for suppliers.[355] Michael Lewis, CEO, E.ON, told us that, "the fundamental profitability allowed is 1.9%; in practice, hardly anybody is making any profit at all. In fact, the entire sector has been loss-making for several years, which is why 29 companies have gone bust".[356] According to Ofgem, the average pre-tax margin achieved by large legacy suppliers in 2020 was minus 1.32% for electricity and minus 0.44% for gas.[357] Losses have increased during 2021 and 2022 as wholesale prices rapidly increased.[358] So Energy told us that "markets cannot exist without investment and this will not be forthcoming unless there is a reasonable expectation of a return".[359]

126. On the other hand, Octopus Energy stated that, in normal market conditions, it made decent margins on price-capped customers and that sufficient margins are "baked" into the price cap to allow for healthy competition between efficient companies.[360] Octopus Energy stated that price protection should remain in place until there is more confidence that there is sufficient competitive pressure on retailers to prevent loyal customers paying a sizeable premium over regular switchers.[361] Similarly, Simone Rossi, CEO, EDF, told

351 Department for Business, Energy and Industrial Strategy (EPM0027)
352 The loyalty penalty impacts customers who do not engage with the market. The disengaged customer remains or are rolled onto their supplier's default tariff. These consumers are defined by lower levels of engagement and are often charged higher prices by suppliers.
353 In June 2016 the Competition and Markets Authority (CMA) found that 70% of domestic customers of the 6 largest energy firms were on expensive default tariffs and could save over £300 by switching to a cheaper deal. Competition and Markets Authority, *Energy market investigation: Final report*, June 2016
354 Department for Business, Energy and Industrial Strategy (EPM0027)
355 For example see: Centrica (EPM0024); So Energy (EPM0025); Bulb (EPM0021); Policy Exchange (EPM0004); E.ON (EPM0013); Utilita Energy Limited (EPM0019)
356 Q256 [Michael Lewis]
357 Ofgem, 'Retail Market Indicators', accessed 22/06/2022
358 Policy Exchange (EPM0004)
359 So Energy (EPM0025)
360 Octopus Energy (EPM0010)
361 ibid.

us that, "abandoning price regulation would be a mistake because customers have to be protected. The current price cap in normal market circumstances [...] was probably fairly compatible with healthy competition".[362]

127. However, we found agreement on both sides of the debate that the price cap was not designed to cope with price volatility and contributed to recent market instability.[363] As the price cap is only revised every six months, it created a lag in suppliers' ability to pass wholesale cost increases on to customers, and in turn, exacerbated suppliers' vulnerability to external shocks. Energy UK stated that despite the price cap increasing by 12% in October 2021 (to £1,277), suppliers were subsidising customers on default tariffs, sometimes by as much as £700 per customer.[364] Ofgem acknowledged that the design of the price cap forced suppliers to subsidise customers in response to wholesale price increases. It explained:

> The cap's methodology has meant it has protected an increasing number of customers—around an extra 7 million since its introduction—from the full extent of the price increases and the costs suppliers face. But this has placed a strain on suppliers–exposing them to hard to manage risks and costs not specifically accounted for in the cap.[365]

128. Dermot Nolan, former CEO, Ofgem, who oversaw the design of the price cap regretted not including provisions to update it more regularly.[366] He accepted that this would have avoided some of the mutualised costs customers are now experiencing.[367] He conceded that, " there was "a failure of imagination on my part in that regard".[368] When we pressed Mr Nolan on why the design of the price cap did not provide any headroom for the risk of shocks to the wholesale market, he said:

> [..] I must confess that I do not regret this, there was a conscious choice to make a tougher price cap. Yes, there were immense amounts of discussion within the Board about that particular issue. We were conscious that we were going to reduce profitability in the industry. The Board took the view that that was the right thing to do. It took that view because the alternative would have been, frankly, higher prices almost indefinitely. One thing we found within our analysis of the bigger companies during the price cap was how inefficient they were compared to some of the smaller companies. We made a conscious decision to reduce the profitability of the sector.[369]

129. While Mr Nolan did not regret the stretching levels of cost efficiency baked into the price cap, the Oxera review (discussed in chapter two) found that the extent of this left suppliers with insufficient margin to deal with shocks.[370] The National Audit Office's report, *The energy supplier market*, published on 22 June 2022, found that although Ofgem understood that the price cap could make suppliers—especially small suppliers—more

362 Q257 [Simone Rossi]
363 See for example: E.ON (EPM0013); Bulb (EPM0021); Energy UK (EPM0028); Octopus Energy (EPM0010); So Energy (EPM0025); Scottish Power (EPM0029); Utilita Energy Limited (EPM0019)
364 Energy UK (EPM0028)
365 Ofgem, *Price cap - Statutory consultation on changes to wholesale methodology*, 16 May 2022, p 5
366 Q448 [Dermot Nolan]
367 ibid.
368 ibid.
369 Q481 [Dermot Nolan]
370 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 4

vulnerable to price shocks, it did not stress test the price cap's design in depth.[371] The Oxera review also concluded that the interaction of the price cap methodology and the Supplier of Last Resort process led to the gap between the maximum price allowed under the cap and the (higher) wholesale price being mutualised through future customer bills.[372] The interaction between the two was not understood by Ofgem.[373]

130. **The design of the energy price cap has contributed to recent instability in the supplier market. Ofgem failed to properly stress test its design against a range of scenarios or consider how it interacted with its other regulations. The methodology forced suppliers to subsidise customers, which was clearly not the intended purpose of the price cap.**

131. In February 2022, Ofgem issued a policy consultation on changes to the price cap methodology to ensure it reflected the underlying costs and risk to energy suppliers of supplying energy to customers.[374] This included seeking feedback on moving from six-monthly to quarterly updates of the price cap. In May 2022, it issued a further consultation in which it confirmed its preference to move to quarterly updates of the price cap from October 2022.[375] This move was supported by suppliers and Citizens Advice, who stated:

> A more frequent calculation of the price cap would pass on price rises—and falls—to consumers more quickly, leaving suppliers less exposed in the case of rapid price changes. There may be some implementation costs associated with more frequent price changes, but we believe these are likely to be much lower in magnitude than the scale of costs that consumers face in bailing out failed suppliers.[376]

132. However, Ofgem's cost benefit analysis of its proposal to move to a quarterly price cap did not consider the risk and impact of rising prices this coming winter, and how that would affect vulnerable customers and levels of self-disconnection. Analysts now expect the price cap to increase from £3,244 in October to £3,363 in January.[377] Consumer groups and charities, including National Energy Action, Age UK, and the End Fuel Poverty Coalition, outlined serious concerns that the move to a quarterly price cap could put vulnerable customers at extreme risk during the coldest months of this winter.[378]

133. **We welcome more frequent calculations of the price cap if this stabilises the supplier market amid current market conditions. However, Ofgem's cost benefit analysis of its proposed move to quarterly price cap updates did not consider the impact that further price rises in January 2023 could have on vulnerable customers, including an increased risk of self-disconnections.**

371 National Audit Office, *The energy supplier market*, 22 June 2022, p 44
372 Oxera, *Review of Ofgem's regulation of the energy supply market*, 3 May 2022, p 5
373 ibid.
374 Ofgem, *Consultation on Medium Term Changes to the Price Cap Methodology*, 4 February 2022
375 Ofgem, *Price cap - Statutory consultation on changes to wholesale methodology*, 16 May 2022
376 Citizens Advice (EPM0014)
377 Cornwall Insight, 'Default Tariff Cap forecast climbs further as Ofgem announcement looms', 8 July 2022
378 Age UK (EPM0009); National Energy Action (EPM0033); End Fuel Poverty Commission, 'End Fuel Poverty Coalition calls for further Ofgem action', 22 June 2022; National Energy Action (EMP0045)

134. ***Ofgem should update the cost benefit analysis of its proposal for a quarterly price cap, so it reflects the risk of prices increasing this January, in order for Ofgem, the Government, and Parliament to fully understand the potential impacts for vulnerable customers.***

Alternative forms of price protection

135. The Energy Bill [HL], introduced to Parliament on 6 July 2022, includes provisions to extend the energy price cap beyond 2023.[379] The Bill will not change how the price cap functions or is calculated. The Government is yet to set out what market conditions would lead to the removal of the price cap, evaluate the costs and benefits of extending the price cap in its current form or consider alternative types of price protection.[380]

136. During our inquiry, suppliers called for fundamental reforms to the energy price cap. For example, Octopus, E.ON, and British Gas urged the Government to change the design of the price cap to a relative price cap which would cap the difference between suppliers' cheapest and most expensive tariffs.[381] These suppliers argued that this would address the issue of wholesale price volatility by returning control of hedging to retailers, giving them greater flexibility to manage risks more generally, and protect customers by limiting tariff differentials.[382] A relative price cap could also be designed to work with innovative smart tariffs, which are needed for net zero.[383] So Energy favoured a relative price cap over the existing price cap, but stated that its preference is to remove the price cap and tackle the loyalty penalty by requiring suppliers to make all new tariffs available to existing customers rather than just potential switchers.[384]

137. Given that the price cap is intended to provide a fair market price for energy, rather than an affordable one, and the cheapest deal on the open market is, at the time of writing (July 2022), 34% higher than the price cap,[385] other suppliers and consumer groups called for a social tariff to be implemented to provide deeper price protection for vulnerable customers. This would be paid for by the rest of the market either through taxation or bills. Keith Anderson, CEO, Scottish Power, called for it to replace the existing price cap and be targeted to people in poverty and on a prepayment meter, with the cost borne by those who can afford to pay.[386] Martin Lewis, Chair of Money Saving Expert, also expressed support for a social tariff to replace the price cap once the market stabilises. He said that in normal times, we should define who are "legitimate victims of the market":

> If I or you choose not to switch, hard luck. You should know better. If a struggling 90-year-old grandmother who has dementia chooses not to switch, she needs much greater protection than the price cap currently affords.[387]

379 Prime Minister's Office, 'The Queen's Speech 2022', 10 May 2022; Energy Bill, HL Bill 39, 7 July 2022
380 National Audit Office, *The energy supplier market*, 22 June 2022, p 46
381 Octopus Energy (EPM0010); E.ON (EPM0013); Centrica (EPM0024); Bulb (EPM0021)
382 ibid.
383 Policy Exchange (EPM0004)
384 So Energy (EPM0025). So Energy told us that the Financial Conduct Authority (FCA) recently introduced this requirement in the home and motor insurance markets as part of efforts to tackle loyalty penalties. Bulb Energy agreed that exclusive tariffs should be banned, but in contrast to So Energy argued that this should complement a relative price cap. Bulb (EPM0021)
385 Money Saving Expert, 'Martin Lewis: Is it time to fix my energy bill or should I stick on the price cap?', 1 July 2022
386 Q203 [Keith Anderson]; Scottish Power (EPM0029)
387 Q152 [Martin Lewis]

138. Michael Lewis, CEO, E,ON, argued that a social tariff should be implemented alongside a relative price cap for the rest of the market.[388] Whereas National Energy Action called for a social tariff to be implemented alongside the existing price cap and Warm Home Discount, which gives a £150 rebate to around three million households funded by policy costs on energy bills.[389] National Energy Action argued that the policies perform different specific functions that cannot be replicated by a social tariff.[390] The Warm Home Discount gives a flat payment (same regardless of usage) in winter, whereas a social tariff is a reduction on the unit rate (and maybe standing charge), which scales with usage, and gives a discount all year round so energy is affordable in all seasons.

139. Gillian Cooper, Head of Policy at Citizens Advice, told us that the price cap has performed well at tackling the loyalty penalty. She added that to deliver an affordable price this could be done either through the Warm Home Discount or a social tariff, but that consideration will need to be given to how the loyalty penalty will be tackled because it is "a persistent problem in the energy market".[391] She concluded that fairness and affordability are quite different and deserve interventions of their own.[392]

140. In *The energy supplier market* report, published on 22 June 2022, the National Audit Office recommended that the Government and Ofgem undertake a review of the costs and benefits of the energy price cap to inform decisions about the operation of the cap and alternative forms of price protection.[393] This should include consideration of whether alternative types of price cap, such as one that focuses on vulnerable households or is based on the relative cost of different tariffs a supplier offers, better achieves its objectives for the retail market.[394]

141. **The Energy Bill [HL], which was introduced to Parliament on 6 July 2022, included provisions to extend the energy price beyond 2023, but it will not change how the price cap functions. Neither the Government nor Ofgem has undertaken an evaluation of its costs and benefits, nor considered alternative forms of price protection, including a social tariff which could provide deeper price protection for vulnerable, fuel poor and low income households.**

142. ***We ask Ofgem to undertake an immediate review of the costs and benefits of the energy price cap to inform decisions about its operation and alternative forms of price protection.***

143. ***We call on the Government to consider the introduction of a social tariff for the most vulnerable customers and a relative tariff for the rest of the market, to be introduced once wholesale energy prices have stabilised. We ask the Government and Ofgem to report its findings on the above issues within nine months of the date of this report.***

388 Q257 [Michael Lewis]
389 National Energy Action, 'Supporting vulnerable energy customers', accessed 3/07/ 2022; National Energy Action (EPM0033)
390 ibid.
391 Q152 [Gillian Cooper]
392 ibid.
393 National Audit Office, *The energy supplier market*, 22 June 2022, p 12
394 ibid.

Third-party intermediaries

144. Ofgem relaxed its tariff rules in 2018 to enable suppliers to offer discounted deals for new customers (exclusive tariffs) through Price Comparison Websites (PCWs).[395] This paved the way for customers to find cheaper deals for their energy and make savings by switching tariffs or suppliers.[396] In 2019, according to Citizens Advice, 49% of domestic consumers that engaged in the market said they did so through a price comparison service, and of these 10% used an auto-scanning or auto-switching service.[397] Neil Kenward, Director for Strategy and Decarbonisation, Ofgem, estimated that immediately prior to the crisis, the retail market reached a point "where almost half of households were switching and were actively engaging".[398] Those who chose not to engage could rely on auto-switchers to switch on their behalf. These services began to proliferate from 2016 and by September 2021, the largest auto-switching service, Look After My Bills, reported over half a million users.[399]

145. Witnesses agreed that the combination of using switching rates as the key metric to determine the health of the market, the inadequate controls over the business practices of energy suppliers, and Ofgem having limited regulatory oversight of third-party intermediaries (TPIs),[400] led to these services promoting unsustainable pricing and risky supplier business models.[401] EDF told us that PCWs directed savvy, engaged consumers to new suppliers, who were offering unsustainable prices to the detriment of disengaged (and often vulnerable) consumers who are now also paying the costs of supplier failures.[402] Citizens Advice argued that TPIs disregarded the financial resilience of suppliers and their customer service standards.[403] For example, in 2019, Avro Energy was presented with the "Best Choice Value For Money" award by PCW—Uswitch.[404] This was despite the fact that Avro had been reported to Ofgem by Citizens Advice for breaching licence conditions related to customer service; operating with heavy losses, inadequate hedging and capital reserves; relying on customer credit balances to finance its business; and, offering unsustainable pricing.[405]

395 In 2016, the CMA recommended that the regulator remove the ban on complex tariff structures; the four-tariff rule; the restrictions on the offer of discounts; and the restrictions on the offer of bundled products. Competition and Markets Authority, *Energy market investigation: final report*, 24 June 2016, p 50; So Energy (EPM0025)

396 Uswitch told us that since it launched in September 2000, it has helped customers to save £2.5 billion. Uswitch (EPM0035)

397 Citizens Advice, *Stuck in the Middle: How to improve protections for people using energy third-party intermediaries*, 3 March 2020, p 7. Auto-scanning services regularly scan the market on a customer's behalf and let them know when they can save by switching. Auto-switching scan the market and automatically switch the customers.

398 Q43 [Neil Kenward]

399 Look after my bills, 'We're now the LARGEST auto-switching service!', 28 September 2021

400 Third-party intermediaries or TPIs refers to a range of services including: price comparison website; collective switches; bill splitters; auto-switchers and smart TPIs. In the energy sector, consumers receive additional protections (in addition to general consumer law) when dealing with energy suppliers as they have to comply with licence conditions which set out their responsibilities to customers. However, Third-Party Intermediaries (TPIs), such as PCWs and auto-switchers, are not licensed or subject to regulations. For more information, see: Citizens Advice, *Stuck in the Middle: How to improve protections for people using energy third-party intermediaries*, 3 March 2020

401 See for example, So Energy (EPM0025); E.ON (EPM0013); Citizens Advice (EPM0014). See paragraph 21 for information on unsustainable pricing.

402 EDF Energy (EPM0031)

403 Citizens Advice (EPM0014)

404 Uswitch, 'Uswitch Energy Awards 2019', accessed 28/06/2022

405 This is detailed in box two in chapter two of this report.

146. Citizens Advice also found cases where TPIs failed to provide a transparent service and switched customers to unsuitable products where they lost out on protections, with no recourse.[406] Auto-switchers do not always compare all suppliers in the market and those that operate through earning commission from suppliers may only compare companies that pay them.[407] Citizens Advice identified that some auto-switchers were able to switch consumers to fewer than 15 suppliers, out of around 70 suppliers in the market at the time—costing customers up to £70 more than if they had searched themselves.[408] Age UK stated that customers using auto-switching services were often unable to select a suppliers' customer service as a switching criterion and struggled to understand how much value they were getting out of switching.[409]

147. On 6 May 2022, we wrote to TPIs to better understand their role in the retail market.[410] Respondents disputed assertions that their services contributed to declining customer service standards, fuelled a race to the bottom on price, or guided customers to deals based on commission.[411] Comparison-led TPIs said that their services increased the transparency of information available to customers, which allowed them to easily navigate the market.[412] Despite presenting Avro with the "Best Choice Value For Money" award in 2019, Uswitch said that prior to the energy price crisis it had checks in place for suppliers and it chose not to work with suppliers if it lacked confidence in their ability to deliver "a good customer experience".[413] MoneySuperMarket highlighted that there is already some regulation of PWCs through Ofgem's voluntary Confidence Code accreditation scheme. Members are required to provide reassurance to customers about the independence, transparency, and accuracy of their service. Independent auditors, appointed by Ofgem, review compliance with this on an annual basis.[414]

148. Uswitch highlighted that auto-switchers were "distinct" from comparison-led TPIs as they "were less reliant on consumers making the final switching decision and […] tended to work with smaller, some now failed brands". It stated that the crisis "exposed the problems" in the auto-switching model compared to comparison-led TPIs".[415] The largest auto-switcher, Look After My Bills, told us that it was transparent with customers that its funding model was based on commission from suppliers and that it did not show every deal on the market.[416] It told us that it never claimed to give customers the cheapest deals; instead, it switched customers if they could make savings in excess of £50 (£15 for prepayment customers). It said that it allowed customers to express their preferences such as switching to green tariffs or suppliers that offered the Warm Home Discount and required suppliers to pass a "creditworthiness check".[417]

406 For example, suppliers with less than 250,000 customers were not required to offer the Warm Home Discount scheme.
407 Citizens Advice (EPM0014)
408 Citizens Advice, *Stuck in the middle*, 3 March 2022, p 14
409 Age UK (EPM0009)
410 Business, Energy and Industrial Strategy Committee, Letter from Chair to TPIs, 26 May 2022. We received responses from PCWs, such as TheEnergyShop.com (EMP0041); Uswitch (EMP0035), MoneySuperMarket (EMP0037) and Which? (EMP0036), and auto-switchers, such as, Look After My Bills (EMP0038), Switchd (EMP0039) and Switchcraft (EMP0040).
411 See for example: Uswitch (EMP0035), Which? (EMP0036) and MoneySuperMarket (EMP0037)
412 See for example: MoneySuperMarket (EMP0037); Which? (EMP0036),
413 Uswitch (EMP0035)
414 MoneySuperMarket (EMP0037)
415 Uswitch (EMP0035)
416 Look After My Bills (EMP0038)
417 ibid.

149. TPIs have stopped operating given current market conditions, but this could quickly change when market conditions stabilise.[418] Consumer groups called for these services to be properly regulated as they potentially re-emerge in the market, and for this regulation to be future proofed for the significant role TPIs are expected to play in the transition to net zero.[419] Age UK and Citizens Advice stated that this regulation should ensure TPIs provide far greater transparency to ensure consumers understand whether they are getting the best deal, are able to specify wider preferential switching criteria, and have access to advice and redress.[420] While MoneySuperMarket and Look After My Bills agreed that there should be consistent regulation of TPIs, Uswitch stated that it does not believe "comparison services in their current form need further regulation".[421] Uswitch argued that regulation of TPIs "should be proportionate to potential customer detriment" and the best way to do this "is by outcomes-based regulation focusing on customer experience rather than specific TPI practices or business models".[422]

150. BEIS acknowledged that "the lack of a regulatory framework for third-party services could lead to inconsistent consumer protection".[423] On 16 August 2021, the Government published a consultation on regulating TPIs: *Third-party intermediaries in the retail energy market: call for evidence*.[424] Daniel Osgood, Director, Energy Security, Markets and Analysis, BEIS, confirmed that the regulation of TPIs is being designed in tandem with the revision of the Energy Retail Market Strategy, which we can expect "before the next price cap setting".[425]

151. **The Government's failure to regulate third-party intermediaries in combination with Ofgem's failure to regulate energy suppliers led to third-party intermediaries promoting energy suppliers with flawed business models and unsustainable pricing. We are concerned that third-party intermediaries did not pay sufficient regard to understanding customers' needs and ensuring customer service standards.**

152. ***We recommend that the Government brings forward regulation of third-party intermediaries. Regulations should ensure that third-party intermediaries encourage customers to switch not just on price, but also on customer service standards and other factors. The regulations should also ensure that third-party intermediaries are transparent about the services offered and the suppliers that they work with, provide***

418 Citizens Advice (EPM0014); Uswitch told us that it has not had any tariffs available for customers to switch to directly from its website since September 2021 - as a result, it has made no revenue from domestic switching.
419 These services, which are currently at trial stages in the domestic market, will be used to control household appliances to optimise energy use in response to price signals (i.e., using energy when supply is abundant and therefore cheaper). This will enable consumers to lower costs, while offering demand flexibility to the grid. However, Citizens Advice warned that "smart TPIs" controlling devices in the home will need robust protections in place. For more information: Citizens Advice, *Stuck in the Middle: How to improve protections for people using energy third-party intermediaries*, 3 March 2020
420 Age UK (EPM0009); Citizens Advice (EPM0014). For example, TPIs must have effective complaints handling procedures, signpost to third-party support and be accredited with an alternative dispute resolution service. For more information, see: Citizens Advice, *Stuck in the Middle: How to improve protections for people using energy third-party intermediaries*, 3 March 2020, p 27
421 MoneySuperMarket (EMP0037); Uswitch (EMP0035); Look After My Bills (EMP0038)
422 Uswitch (EMP0035)
423 Department for Business, Energy and Industrial Strategy, *Energy retail market strategy for the 2020s*, 23 July 2021
424 Department for Business, Energy and Industrial Strategy (EPM0027)
425 Q578–579 [Daniel Osgood]

an explanation of remuneration and access to advice and redress for customers. The regulations need to be future-proofed for the significant role that third-party intermediaries are expected to play in the transition to net zero.

Energy Retail Market Strategy

153. In July 2021, the Government published its *Energy Retail Market Strategy for the 2020s*.[426] Two key objectives guided the strategy: (i) a sustainable retail market that delivers services and products that make it easy for customers to engage in the market and reduce their usage to support decarbonisation, and (ii) all consumers should pay fair prices for their energy. The strategy's flagship policy was its proposal for "opt in" and "opt out" switching whereby customers, unless they chose not to be, would be automatically switched to energy suppliers offering the lowest prices.[427] In light of the energy pricing crisis, the Government paused this policy work.[428]

154. Whilst Energy UK broadly agreed with the vision set out in the Strategy,[429] the CEO, Emma Pinchbeck, asserted that the Government's plan to deliver this was "stuck in the past".[430] E.ON argued that rather than publishing a strategy that reformed the retail market, the Government published a strategy that was "largely built on the short to medium term goal of accelerating switching rates".[431] Centrica agreed, stating that it "incentivises more irresponsible commercial practices, including not hedging commitments to customers in the event they would be switched away, and would encourage entrants to offer unsustainably low prices to gain market share".[432] We found consensus that the retail market needs to differentiate on not just price, but on the service levels offered.[433] Energy UK noted:

> instead of continuing the pursuit of increased switching and the proliferation of below cost tariffs to the expense of market sustainability, the Government's strategy should be geared towards creating a sector that is encouraged through reward to innovate, provide new and better services to customers, and fits in to the wider system's overall transition to meet net zero.[434]

155. The Government committed to provide a "refresh" of the retail market strategy "as soon as possible, once the market has stabilised", and review the lessons learned from this crisis.[435] In December 2021, the Government published a call for evidence on the future of the energy retail market,[436] and in May 2022, it committed to publishing the revised strategy ahead of the next price cap setting which is expected to be announced at the end of August 2022.[437]

426 Department for Business, Energy and Industrial Strategy, *Energy retail market strategy for the 2020s*, 23 July 2021
427 ibid.
428 Department for Business, Energy and Industrial Strategy (EPM0027)
429 Energy UK (EPM0028)
430 Energy UK, 'Energy UK responds to Retail Strategy', 23 July 2021
431 E.ON (EPM0013)
432 Centrica (EPM0024)
433 See for example: E.ON (EPM0013); Centrica (EPM0024); Octopus Energy (EPM0010); Energy UK (EPM0028); Citizens Advice (EPM0014)
434 Energy UK (EPM0028)
435 Department for Business, Energy and Industrial Strategy (EPM0027)
436 Department for Business, Energy and Industrial Strategy, 'Future of the energy retail market: call for evidence', 21 December 2021
437 Q578–579 [Daniel Osgood]

156. Over the next decade, an increased demand for electricity, driven by uptake of electric vehicles and heat pumps, is expected.[438] However, electricity demand is currently inflexible. This means that relatively few customers increase their demand to soak up the benefits of wind and solar generation when generation is abundant, and few customers reduce their demand at times of less supply.[439] Policy Exchange noted that this is due to the few incentives offered to customers to flex their electricity demand. If customers use more electricity during off-peak periods, they can reduce the overall cost of operating the electricity system, as well as emissions and peak demand.[440]

157. In April 2021, Ofgem announced its decision to implement market-wide half hourly settlements (MHHS) across the electricity retail market over a four and a half year time period.[441] Through smart meters, MHHS allows suppliers to settle their customers' energy in near real time, rather than relying on estimates of when they use electricity. It is expected that the MHHS roll out in 2025 will facilitate new time of use tariffs which allow customers to reduce their energy bills by using more of their electricity during off-peak periods and/or periods of high wind and solar generation and encourage suppliers to offer new products that allow customers to move consumption away from peak demand periods.[442] Ofgem estimated that MHHS would deliver net benefits to energy consumers across Great Britain in the range of £1.5 billion to £4.5 billion over the period 2021 to 2045.[443]

158. Energy UK stressed that the implementation of MHHS and the proliferation of time of use tariffs are necessary preconditions that the Government must consider in its revised Energy Retail Market Strategy to maximise consumers' contributions to net zero.[444] Octopus Energy told us that due to wholesale market and network charging arrangements, time of use tariffs are currently loss making for retailers, and that the Government needs to consider how these can be supported while the necessary system reforms are carried out.[445]

159. While there are some agile tariffs currently being offered on the market,[446] Citizens Advice noted that consumers have "low awareness" of them.[447] It also highlighted a number of risks to consumers, for example, uncertainty over customer redress for when there are problems with the installation of smart technologies. It called on the Government to use the Energy Retail Market Strategy to raise awareness of these technologies, provide greater customer protections and consider groups, such as those who are vulnerable and on low incomes, who may struggle to engage in and benefit from this new market.[448]

160. In its report, *The energy supplier market*, the National Audit Office concluded that Ofgem and the Government "while managing the short-term challenges of stabilising the market", must focus the recovery of the retail market to "facilitate a longer-term transition

438 E.ON (EPM0013)
439 Policy Exchange (EPM0004)
440 ibid.
441 Ofgem, 'Electricity Retail Market-wide Half-hourly Settlement: Decision and Full Business Case', 20 April 2021
442 Policy Exchange (EPM0004); Dr. Nick Hughes (EPM0020); Energy UK (EPM0028)
443 ELEXON (EPM0016)
444 Energy UK (EPM0028)
445 Octopus Energy (EPM0010); see also Dr. Nick Hughes (EPM0020)
446 For example, Octopus' Agile which gives a different electricity rate for each half hour period during the day (48 slots per 24 hours).
447 Citizens Advice (EPM0014)
448 ibid.

of the supplier market to one that truly works for consumers and supports the achievement of net zero".[449] It argued that this requires a "nuanced approach to regulation that finds a balance between its aims of competition, innovation, resilience and affordability for consumers".[450] The National Audit Office recommended that:

> in line with plans to revisit the Energy Retail Market Strategy, [the Department and Ofgem should] set a date by which they will review the changes needed to retail market regulation so that the supplier retail market aligns with the achievement of net zero. They should also establish interim milestones, including establishing by the end of 2022 high-level principles around the role suppliers will play in achieving net zero with which to test whether any short-term financial regulations are compatible with these principles.[451]

161. **The previous Energy Retail Market Strategy was primarily driven by the objective to accelerate switching rates. The collapse of energy retailers demonstrated the flaws of this approach. The revised retail strategy will need to develop a market that differentiates not just on price, but on the services offered by suppliers. It needs to create incentives for customers to make the investments needed to decarbonise their homes and reward suppliers for providing enticements to reduce demand. It will need to provide protection for, and reduce the barriers to, customers who are at risk of missing out on the benefits of this market.**

162. ***The Department and Ofgem must urgently update the Energy Retail Market Strategy so that the supplier retail market aligns with our net zero target; this must include interim milestones and high-level principles about the role suppliers will play in achieving net zero.***

163. ***In order to deliver the Government's target of a zero carbon electricity system by 2035, we further recommend that greater consideration is given to smart tariffs in the revised Energy Retail Market Strategy. Specifically, we ask the Government to consider how time of use tariffs can be supported while the necessary system reforms are being carried out. Consideration should also be given as to how to support the energy supplier market in engaging different customer groups in net zero and ensure sufficient protections are in place for vulnerable customers.***

449 National Audit Office, *The energy supplier market*, 22 June 2022, p 12
450 ibid.
451 ibid.

5 Support for households

164. The energy price crisis has not only led to the collapse of the retail market, but it has placed significant financial strain on households, who are also experiencing other inflationary pressures, such as higher food and fuel prices, in response to the wider cost-of-living crisis.[452] With the price cap expected to rise to well over £3,000 this winter, the worst is yet to come.[453] Suppliers and consumer groups told us that customers are increasingly struggling to pay their energy bills and are at risk of accruing large sums of debt.[454] Prepayment self-disconnections are already estimated to be at a record high.[455]

Box 4: Disproportionate impact of rising energy prices on vulnerable households

The Office for National Statistics (ONS) noted that while rising energy prices affect most households, those on the lowest incomes are most likely to be disproportionately affected.[456] Compared to any other spending categories, spending on energy varies less by income. Using ONS data, the House of Commons Library noted that between 2019–20, 10% of households with the lowest incomes spent just under £20 per week compared to £32 per week among the 10% with the highest incomes.[457] Spending on energy as a share of total expenditure was much higher in lower income groups: 7.5% in decile 1 and 7.3% in decile 2 compared to just 2.7% in decile 10. Research by the Resolution Foundation, published in May 2022, noted that four in five of the poorest families will face fuel stress this October.[458]

Government support on energy bills

165. On 3 February 2022, Ofgem announced that the energy price cap would increase for approximately 22 million customers on 1 April 2022. Those on default tariffs paying by direct debit saw an increase of £693 from £1,277 to £1,971 per year and prepayment customers saw an increase of £708 from £1,309 to £2,017.[459] In response to Ofgem's announcement, on the same day, the then Chancellor of the Exchequer, Rt Hon Rishi Sunak MP, announced a package of support measures for households to help with increasing energy bills.[460] This included an Energy Bills Support Scheme where all households would receive £200 off their energy bills in October to be paid back in £40 instalments over the following five years from 2023 and a non-repayable, one-off £150 Council Tax rebate for all households in council tax bands A-D in England in April (around 80% of households in England).[461]

452 *Rising cost of living in the UK*, CBP 9428, House of Commons Library, 22 June 2022
453 Analysts at the Cornwall Insight, an energy consultancy, forecasted that for a three-month cap period, for typical usage, from October 2022, the energy price cap could rise to £3,244 and £3,363 in January 2023. Cornwall Insight, 'Default Tariff Cap forecast climbs further as Ofgem announcement looms', 8 July 2022
454 This is detailed from paragraph 184
455 Citizens Advice (EMP0047)
456 Office for National Statistics, Energy prices and their effect on households, 1 February 2022
457 *Domestic energy prices*, CBP-9491, House of Commons Library, 11 July 2022
458 Resolution Foundation, 'Energy prices: Why now is the time to act to help millions of families facing fuel bill catastrophe', 3 May 2022. This was published before the Government's May 2022 support package was announced.
459 Ofgem, 'Price cap to increase by £693 from April', 3 February 2022
460 GOV.UK, 'Statement by the Chancellor of the Exchequer on Cost of Living Support', 26 May 2022
461 GOV.UK, 'Chancellor's statement to the House - Energy Price Cap', 3 February 2022. This was also accompanied by £144 million in discretionary funding for local authorities and £715 million for the devolved administrations.

166. The Energy Bills Support Scheme was widely criticised across the energy sector.[462] The CEOs of the four largest suppliers told us that the Government did not consult with them on the design or the delivery of the scheme before it was announced.[463] Citizens Advice described the scheme as "strange, complicated and untargeted",[464] and informed us that it would still leave five million people unable to afford their energy bills from April 2022, rising to 14.5 million people in October 2022.[465] Bill Bullen, CEO, Utilita, criticised the lack of targeted support and suggested that "instead of having £200 for every household, you could have had £600 for the lowest third of households".[466]

167. Following Russia's invasion of Ukraine in February 2022, the energy price crisis escalated. Michael Lewis, CEO, E.ON, estimated that between 30% and 40% of households could enter fuel poverty come October.[467] Similarly, Keith Anderson, CEO, Scottish Power, warned that it is "going to get horrific, truly horrific" and that the scale of the problem required "a massive, significant shift in Government policy and approach".[468] On 24 May 2022, Jonathan Brearley, CEO, Ofgem, told us that he expected the October price cap to increase to £2,800.[469]

168. After months of uncertainty for customers and suppliers about households' ability to cope with price increases and repeated calls from across the sector for the Government to take further action, on 26 May 2022, the then Chancellor announced an updated package of support.[470] It was intended to help households with higher energy bills and the cost-of-living more generally in 2022–23.[471] It doubled the Energy Bills Support Scheme to £400 for all households and scrapped the requirement for it to be repaid. It also included a one-off £650 payment to around eight million households on certain means tested benefits, a one-off £150 disability cost-of-living payment for people who receive certain disability benefits and a one-off £300 payment for over eight million pensioners.[472] The combined value of these measures, and the previous measures, totalled £21.3 billion.[473] The revised support package was broadly welcomed across the sector. Adam Scorer, CEO, National Energy Action (NEA), said that it had averted "the darkest of outcomes".[474] Dhara Vyas,

462 Q104 [Peter Smith]; Martin Lewis, Chair of Money Saving Expert, described this as a "fiscal punch in the face" Q143 [Martin Lewis]
463 Q229 [Simone Rossi]
464 Citizens Advice, 'Support on energy bills is "strange, complicated and untargeted", says Citizens Advice', 3 February 2022
465 Q145 [Gillian Cooper]
466 'Prepay energy customers disconnect over price rises', BBC, 29 April
467 Q240 [Michael Lewis] Fuel poverty is measured using the Low Income Low Energy Efficiency indicator. A household is seen to be fuel poor if: they are living in a property with a fuel poverty energy efficiency rating of band D or below and when they spend the required amount to heat their home, they are left with a residual income below the official poverty line. For more information, see: GOV.UK, *Sustainable warmth: protecting vulnerable households in England*, 11 February 2021
468 Q202 [Keith Anderson]
469 Q484 [Jonathan Brearley]
470 Following criticisms of the Government's February 2022 support package there were reports in the media that further support for households was being blocked by the Treasury. On 25 March 2022, the Telegraph reported that Prime Minister wanted to use the Spring Statement to guarantee cheaper energy bills next winter, but the Chancellor rejected this. 'Boris Johnson plan to guarantee cheaper energy bills 'was blocked by Rishi Sunak'', The Telegraph, 25 March 2022. On 7 April 2002, the i newspaper reported that an early draft of the Energy Security Strategy discussed increasing the £200 energy rebate scheme to "£500 or more" for either all households or "fuel poor" homes, but this was rejected by the Treasury. 'Rishi Sunak blocked increase of energy bill rebate from £200 to £500 'or more', leaked document shows', inews, 7 April 2022
471 GOV.UK, 'Statement by the Chancellor of the Exchequer on Cost of Living Support', 26 May 2022
472 ibid. It also included an additional £500 million of local support through the Household Support Fund.
473 *Domestic energy prices*, CBP-9491, House of Commons Library, 28 June 2022
474 National Energy Action, 'Chancellor's cost-of-living measures "avert the darkest of outcomes"', 26 May 2022

Director of Advocacy, Energy UK, explained that while "it won't be easy for customers who will still be facing high energy bills, […] this should help ease the difficulties for millions of households".[475]

169. However, since the announcement of the May 2022 support package, wholesale gas prices have continued to rise. On 8 July 2022, Cornwall Insight, an energy consultancy, published its latest estimates on the level of upcoming price caps. It forecasted that for a three-month cap period, for typical usage, from October 2022, the energy price cap could rise to £3,244 and £3,363 in January 2023.[476] The October price cap is now expected to be £450 higher than what the Government's support package was based on. Dr Craig Lowrey, Principal Consultant, Cornwall Insight, stated that the Government's measures "will make a dent in the increase […], but will not wholly offset this so further support will likely be sought for as long as these high prices continue".[477]

170. **We are gravely concerned by the latest forecasts from industry experts that the price cap will increase to £3,244 in October 2022 and £3,363 in January 2023. This will have very serious consequences for households across the country, particularly those that are on low incomes, in fuel poverty, and in vulnerable circumstances. The Government's May 2022 support package is welcome but will now be eclipsed by the scale and longevity of the price increases, and we are concerned that public funds are still not being targeted adequately enough to those who need it the most.** ***We urge the Government to provide an immediate and better targeted update to its support package that aligns with the expected scale of price increases.***

171. In terms of delivering the support that is available, Citizens Advice identified a range of challenges in ensuring that the Energy Bills Support Scheme reaches vulnerable customers from October 2022. It estimated that one in eight renters—585,000 people, who pay their energy bills as part of their rent—are at risk of missing out on this vital support.[478] This is because there is no obligation on landlords, who pay energy suppliers on behalf of tenants, to pass on the benefits of the scheme.[479] Citizens Advice urged the Government to bring forward clear guidance for landlords on how to manage the scheme if they control their tenants' energy contract.[480]

172. The scheme is expected to be delivered to two million customers who use legacy prepayment meters[481] through a series of vouchers, with the risk of loss and theft. Under a previous scheme delivered by vouchers, the 2014–15 Government Electricity Rebate,[482]

475 Energy UK, 'Energy UK responds to the Chancellor's announcement of an enhanced customer support package', 26 May 2022

476 Cornwall Insight, 'Default Tariff Cap forecast climbs further as Ofgem announcement looms', 8 July 2022 The price cap forecasts use a version of the original publicly available models from Ofgem, but these are supplemented by Cornwall Insight's own market intelligence and data inputs. This "gives us the best of both worlds by using the regulator's own approach and our long-established data". For more information, see: Cornwall Insight, 'A Q&A with our price cap specialist, Principal Consultant Dr Craig Lowrey', 28 June 2022

477 Cornwall Insight, 'A Q&A with our price cap specialist, Principal Consultant Dr Craig Lowrey', 28 June 2022

478 Citizens Advice, 'One in eight renters at risk of missing out on vital support with energy bills', 10 June 2022

479 ibid.

480 ibid.

481 A legacy or traditional meter does not have any smart capability. Customers prepay for their energy using a key which, when inserted into the meter, tops up the energy supply according to how much energy the customer has purchased.

482 The Government Electricity Rebate (GER) aimed to ensure that all eligible domestic electricity customers received a £12 rebate on their bills in 2014 and 2015 to help lower the impacts of government environmental and social policy costs on consumer energy bills. GOV.UK, 'Government response to the consultation on the Government Electricity Rebate', 19 June 2014

30% of households using legacy prepayment meters did not redeem their vouchers.[483] BEIS acknowledged this risk in its consultations for the scheme but has thus far provided no mitigations.[484] Citizens Advice also identified a risk that households in debt will see the Energy Bills Support Scheme used to pay down their debt, rather than help them to access energy.[485] For these households, the optimal solution would be to not give the £400 as a credit on their account, but provide it as a negative standing charge. For prepayment customers, it would negate the need for a voucher, and for those in arrears, it would reduce the cost of energy more directly.

173. **We note some delivery risks in ensuring the Energy Bills Support Scheme reaches vulnerable customers this winter, including certain types of tenants, customers using legacy prepayment meters, and those who are in debt to their energy provider.**

174. ***We recommend that the Government ensures there are sufficient safeguards in place for tenants to benefit from the Energy Bills Support Scheme. We recommend that the Government pays the scheme via a negative standing charge to mitigate the risk of prepayment customers not redeeming their vouchers and to ensure it reduces the costs of energy for customers in debt.***

Fairness and Affordability Review

175. In the *Energy White Paper*, published in December 2020, the Government committed to publishing a Fairness and Affordability call for evidence in April 2021, but this is yet to materialise.[486] The purpose of the call for evidence is to begin a strategic dialogue between government, consumers and industry on affordability and fairness in the energy system and maintain public support for net zero through a transparent discussion on costs.[487] This will involve looking at the way energy policy costs are passed through to bills, which has different impacts on different groups and can incentivise or disincentivise certain types of consumer behaviour, including how these costs are apportioned between gas and electricity bills.

176. These environmental and social policy costs associated with schemes, such as the Energy Company Obligation, Warm Home Discount, Renewables Obligation, and the Feed in Tariff, are currently added to energy bills via standing charges.[488] All customers pay the same regardless of their income, usage or payment type. As illustrated in Figure

483 Citizens Advice, 'Citizens Advice response to BEIS' letter on changes to the Energy Bills Support Scheme', 22 June 2022

484 Department for Business, Energy and Industrial Strategy, *Energy Bills Support Scheme Managing the impact of the energy price shock on consumer bills*, April 2022

485 Citizens Advice, 'Citizens Advice response to BEIS' letter on changes to the Energy Bills Support Scheme', 22 June 2022

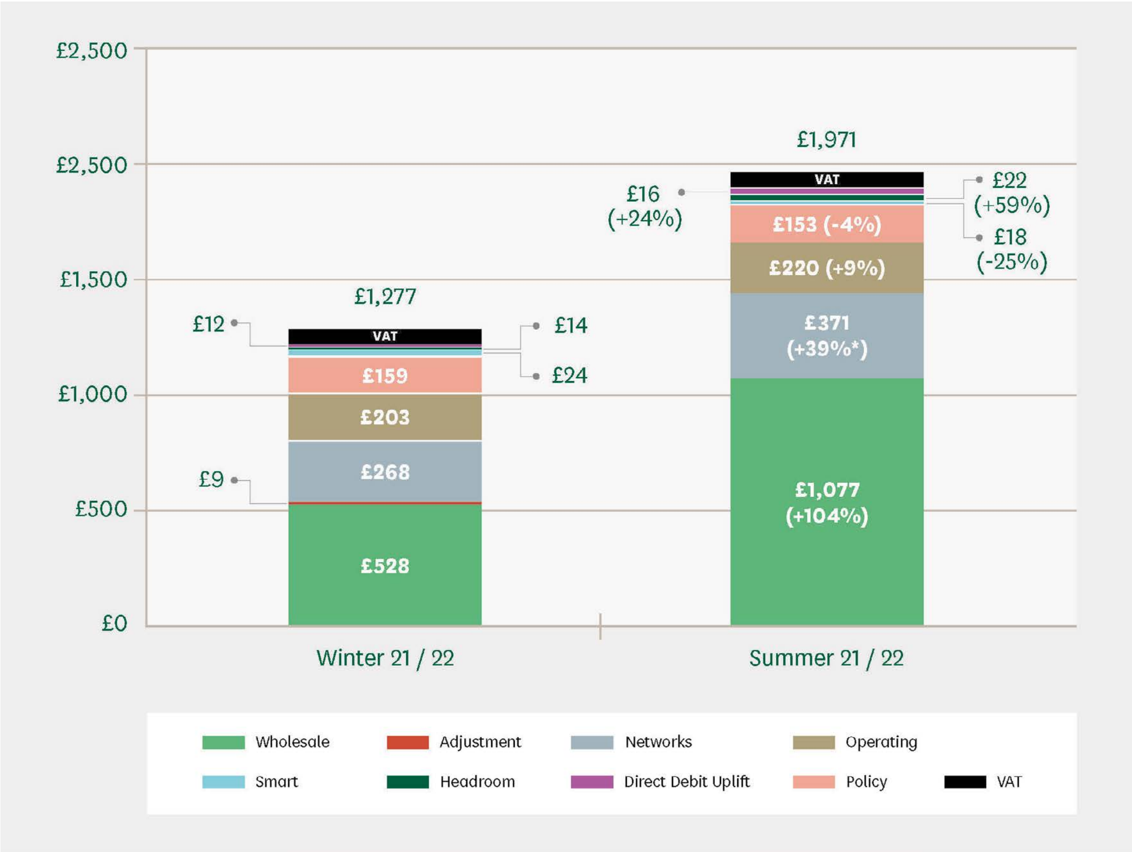
486 Department for Business, Energy and Industrial Strategy, *Energy White Paper*, CP 337, December 2020

487 Department for Business, Energy and Industrial Strategy, *Energy retail market strategy for the 2020s, 23 July 2021*, p 17

488 Standing charges are a daily fixed amount consumers pay suppliers for gas and electricity. It varies by region due to the different costs to transport power to where customers live. The charge pays for costs that are fixed for a supplier on a per customer basis. This includes service administration fees, connections to and maintenance of the energy network and government schemes to reduce carbon emissions and fuel poverty. Suppliers can decide how they structure their standing charges within the cap Ofgem sets, as long as the overall tariff structure does not lead to default tariff customers paying above the relevant cap level. As illustrated in Figure 5 the costs associated with the standing charge has increased as a result of supplier failure costs which are added to network charges, increases to network costs as well as an increase to the Government's green gas levy.

5,[489] these costs currently constitute 7.7% of dual fuel bills with typical usage. Policy costs make up around 12% of the April 2022 price cap for electricity and 3.4% for gas.[490] For the April 2022 price cap period (which covers a six-month period from April 2022 to September 2022), this amounted to £153.[491] It was suggested by some witnesses that these policy costs are moved from energy bills to taxation as funding policies through levies is less progressive than through the tax system.[492]

Figure 5: Breakdown of costs in the energy price cap for dual fuel customers paying by direct debit



177. However, NEA argued that social policies, such as the Warm Home Discount and Energy Company Obligation, are vital programmes that must remain funded by energy consumers to avoid uncertainty as they directly help to reduce prices for the most vulnerable households.[493] NEA supported limited action to remove legacy policy costs from bills, by moving the costs for the Renewables Obligation and Feed in Tariff to general taxation.[494] This would save households £93 on a dual fuel energy bill without creating policy uncertainty for investors in low carbon generation.[495]

178. In the *Net Zero Strategy*, published in October 2021, the Government stated that "when the current gas spike subsides we will look at options to shift or rebalance energy

489 Ofgem, 'Price cap to increase by £693 from April', 3 February 2022
490 *Domestic energy prices*, CBP-9491, House of Commons Library, 11 July 2022
491 This has decreased by £6 from the last price cap period. Ofgem, 'Default tariff cap level: 1 April 2022 to 30 September 2022', 3 February 2022
492 Centrica (EPM0024); Energy UK (EPM0028)
493 National Energy Action, 'Supporting vulnerable energy customers', accessed 3/07/ 2022
494 ibid
495 Ofgem (EMP0044)

levies […] and obligations […] away from electricity to gas over this decade".[496] While rebalancing these costs away from electricity bills is key to removing distortions that make heat pumps more expensive to run than gas boilers, Centrica warned that not all households will be able to transition to an electricity-based heating solution and this policy would therefore penalise low income households who cannot afford to make these changes.[497] It stated that, "we must not have a two-tier energy transition".[498]

179. The Climate Change Committee, in its 2022 *Progress report to Parliament,* stated that "rebalancing levies between gas and electricity is still needed but needs to be done carefully so as not to impact vulnerable groups even more" and agreed with NEA that electricity policy costs associated with legacy policy costs be moved into the Exchequer spend.[499] In our *Decarbonising heat in homes* report, published in February 2022, we recommended that the Government reapportions environmental levies to improve the financial attractiveness of electrified heat incrementally over several years, but that this must be accompanied by mitigating negative impacts on fuel poor and vulnerable households, for example, through targeted financial support programmes focusing on fuel poor households.[500]

180. NEA argued that it is crucial that the Fairness and Affordability Review does not simply look at shifting policy costs from electricity to gas bills but looks at affordability in the round. This includes reviewing the impact that standing charges in general have on fuel poor, low income, and vulnerable households and an assessment as to whether these costs are appropriate for prepayment customers.[501]

181. **While the Government committed to publishing a Fairness and Affordability call for evidence over a year ago, this is yet to materialise. This is a vital piece of work which will need to address how to allocate energy policy costs in a way that incentivises cost-effective decarbonisation while avoiding harmful impacts on vulnerable groups, particularly in the context of continuing rises in wholesale gas prices. It is also an important opportunity to review the impact that standing charges have on vulnerable customers, particularly those using prepayment meters.**

182. ***We recommend that the Government urgently publishes its overdue Fairness and Affordability call for evidence, particularly in the context of rising energy prices. We recommend that the review includes a distributional analysis of the impact that recovering policy costs from electricity and gas bills has on vulnerable customers and considers moving legacy policy costs to general taxation. Any reapportioning of policy costs from electricity to gas bills must be accompanied by mitigating negative impacts on fuel poor and vulnerable consumers. The review should also include an assessment of the impact that standing charges have on vulnerable customers, and whether these charges are appropriate for customers using prepayment meters.***

496 GOV.UK, *Net Zero Strategy: Build Back Greener*, 19 October 2021, p 22
497 Centrica (EPM0024)
498 ibid.
499 Climate Change Committee, *2022 Progress Report to Parliament*, 29 June 2022, p 204
500 Business, Energy and Industrial Strategy Committee, *Decarbonising heat in homes,* Seventh Report of Session 2021–22, HC 1038, p 37–40
501 National Energy Action (EMP0045)

Debt

183. Ofgem introduced the Ability To Pay principles in 2010. These outlined the key considerations suppliers are expected to make when assessing a customer's ability to pay if they are in payment difficulty, as well as the minimum standards required from suppliers to ensure these customers are treated reasonably and fairly.[502] The Ability To Pay principles were strengthened by Ofgem in December 2020 and the new provisions compel suppliers to base repayment rates on the customer's ability to pay and monitor the arrangements after they have been set up.[503] If a customer is struggling to repay their debt, a supplier must either install a prepayment meter if appropriate, or use the Fuel Direct scheme.[504] Fuel Direct is a budgeting scheme that allows customers who are in payment difficulty and eligible for certain means tested benefits to pay off their debt and ongoing energy use directly from their benefit payments.[505] This may be more appealing than having a prepayment meter fitted and removes the risk of self-disconnection.[506] As of April 2022, around 100,000 households are using the Fuel Direct scheme to help with their energy bills.[507]

184. NEA described the updated Ability To Pay principles as a "positive development", but said they were "seldom enforced".[508] Since the updated principles were implemented in December 2020, Ofgem has only taken enforcement action against suppliers in breach of the conditions once.[509] Witnesses warned that following the outset of the energy price crisis suppliers have been breaking the rules to accelerate debt collection, with customers being "aggressively chased" for their energy debts and suppliers being less proactive in ensuring repayment plans are affordable for customers.[510] Gillian Cooper, Head of Policy, Citizens Advice, cautioned that the financial strain on suppliers and customers may create a "really unfortunate circle, where there is more aggressive debt collection in the coming months and poor customer service".[511]

185. Following the April 2022 price cap increase, Jonathan Brearley acknowledged that there were "troubling signs" about how some energy suppliers were treating customers in debt.[512] He announced that Ofgem would be conducting a series of Market Compliance

502 Ofgem, 'Ofgem sets out five point plan to help vulnerable customers', 13 June 2019
503 See the full list of the updated Ability To Pay principles: Ofgem, 'Ofgem strengthen protections for customers struggling with energy bills this winter', 19 October 2020
504 National Debtline, 'Dealing with high gas and electricity bills', accessed 28/06/2022
505 GOV.UK, 'Help paying bills using your benefits', accessed 28/06/2022
506 When prepayment customers cannot afford to top up their meter, they may be forced to self-disconnect their supply. Whilst self-disconnected, standing charges accrue as debt and to access energy supply again, the standing charges must be cleared.
507 Department for Work and Pensions, 'Fuel Direct: supplier contravention of licensing conditions', 20 May 2022
508 National Energy Action (EPM0011)
509 In November 2021, Utility Warehouse failed to consistently offer customers struggling to pay their energy bills debt repayment plans and consider their ability to pay. It was fined £1.5 million by Ofgem. Ofgem, 'Utility Warehouse agrees to pay £1.5 million for issues relating to customers in debt', 10 November 2021
510 Citizens Advice (EPM0014); Q147 [Gillian Cooper]; 'UK energy firms 'chasing customers to pay more than they can afford'', The Guardian, 27 February 2021
511 Q147 [Gillian Cooper]
512 Ofgem, 'Time for suppliers to improve standards for energy consumers', 14 April 2022

Reviews[513] to ensure suppliers were abiding by their licence conditions and committed to act where "suppliers are not meeting the high standards that we want in the market and are not protecting consumers".[514]

186. The Secretary of State for Work and Pensions, Rt Hon Thérèse Coffey MP, wrote to Ofgem on 20 May 2022 to alert it to the fact that some suppliers no longer intend to offer Fuel Direct as a payment option to claimants in debt.[515] The letter also explained how the Department for Work and Pensions (DWP) heard examples of claimants in arrears being told prematurely that ongoing consumption payments were no longer available, and the only option for them was a prepayment meter. This would leave suppliers in contravention of their requirement to support customers in payment difficulty. Jonathan Brearley assured us that Ofgem is investigating the issue.[516]

187. **Ofgem should require energy suppliers to take a pro-consumer approach to payments and debt collections.** ***We urge Ofgem to take swift and firm action in response to suppliers breaching the Ability To Pay licence conditions and ensure that suppliers promote a range of debt repayment options.***

188. In April 2022, Michael Lewis, CEO, E.ON, anticipated that by the end of 2022 (not accounting for the Government's additional support which was announced later in May 2022), "we expect [total debt on E.ON's books] to increase by around £800 million. At the moment it is around £1.6 billion, so a 50% increase".[517] Chris O'Shea, CEO, Centrica, told us that about 10% of British Gas customers were late in payment—approximately 716,000 customers with an average debt of around £440.[518] Following the April price cap increase, Scottish Power set up a new telephone line, which received 8,000 calls in its first week—mostly about concerns over ability to pay.[519] Simone Rossi, CEO, EDF, also noted an increase of 40% in calls from EDF customers worried about debt since the April price cap increase.[520]

189. As part of the Social Obligation Reporting[521] in the supplier licence condition, Ofgem can request data from suppliers quarterly and annually on a range of areas, including the number of domestic customers in debt, the number of self-disconnections, and the number of domestic customers on a supplier's Priority Services Register.[522] The last time Ofgem published information regarding the levels of debt in the market was in October 2021, in its *Consumer Protection Report: Autumn 2021*.[523] We asked Ofgem for an update

513 Market Compliance Reviews assess the processes and practices of energy suppliers and obtain proactive assurances from suppliers that they are delivering high standards for consumers and are fit to operate in the market.
514 Ofgem, 'Time for suppliers to improve standards for energy consumers', 14 April 2022
515 Department for Work and Pensions, 'Fuel Direct: supplier contravention of licensing conditions' 20 May 2022
516 Q500 [Jonathan Brearley]
517 Q199–21 [Michael Lewis]
518 Q202 [Chris O'Shea]
519 Q202 [Keith Anderson]
520 Q201 [Simone Rossi]
521 Social Obligations Reporting is a requirement of the supplier licence conditions that stipulates that supplier must submit data quarterly and annually on a variety of areas: including debt levels, disconnection rates, prepayment meters, smart meters, payment methods used by customers and help for vulnerable customers. Ofgem, 'Decision on changes to Social Obligation Reporting', 27 August 2019
522 The Priority Services Register is a free support service to help people in vulnerable situations offered by energy suppliers. Each supplier keeps their own register. Ofgem, 'Getting extra help with the Priority Services Register', accessed 28/06/2022
523 Ofgem, *Consumer Protection Report: Autumn 2021, 21 October 2021*

on the levels of debt in the market. It informed us that from January to March 2022, 1.9 million customers were in debt or arrears on their electricity bills and 1.4 million on their gas bills. This is an increase of 8.8% for electricity and 9.4% for gas from Q4 of 2021.[524]

190. When suppliers cannot recover debt from customers, it is mutualised and accounted for in future price caps, this is referred to as bad debt. On 24 May 2022, we asked Ofgem for its latest projections on the levels of bad debt likely to accrue as a result of the energy price crisis. It estimated that approximately £1.3 billion will be accrued over 2022–23, across the eight largest suppliers.[525] This is compared to £522 million between April 2021 to March 2022.[526] In a letter dated 27 June 2022, Ofgem told us that the £1.3 billion estimate was made prior to the announcement of the Government's strengthened support package for households and is now likely to overestimate the actual level of bad debt that will arise.[527] Ofgem is yet to undertake updated analysis that accounts for the Government's May 2022 support package or the expected increase to the price cap, so it is unclear how far the support measures will go to minimise the anticipated levels of bad debt in the system.

191. NEA argued that vulnerable customers who accrue significant debt to their energy provider as a result of the energy price crisis should be given further support to accelerate repayments. For example, this could be achieved by the Government matching the contribution made by customers on certain means tested benefits who are using the Fuel Direct scheme.[528]

192. **Energy prices are expected to increase to unprecedented levels and the Government's May 2022 support package will no longer offset the significant increases for households. A considerable number of households will struggle to pay their energy bills and will be at risk of accruing large sums of debt to their energy provider. This could further destabilise the energy supply market and result in bad debt being mutualised. The lack of data published by Ofgem on the levels of debt in the market makes it difficult for the sector to assess and address the extent of the issue.**

193. ***We recommend that the Government develops a scheme to help vulnerable customers accelerate the repayment of debt that has accrued as a result of the energy pricing crisis, for example, by matching the contribution made by customers through the Fuel Direct scheme. We also recommend that Ofgem publishes data on the levels of debt in the market on a quarterly basis. We ask Ofgem to update and publish its analysis on the levels of bad debt it expects energy suppliers to accrue this winter after accounting for further increases to the price cap and the Government's support package announced in May 2022.***

Prepayment customers

194. The Ability To Pay principles allow suppliers to install prepayment meters for customers in payment difficulty so that they cannot build up large sums of debt.[529] Customers using prepayment meters are required to pay for energy before using it, on a

524 Ofgem (EMP0044)
525 Q488 [Neil Lawrence]. Although Ofgem warned that this is "tremendously uncertain because we haven't seen utility bills so high".
526 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
527 ibid
528 National Energy Action (EPM0011)
529 Ofgem, 'Ofgem strengthens protections for customers struggling with energy bills this winter', 19 October 2020

pay-as-you-go basis, rather than receiving a bill for their usage. There are over four million customers (around 15% of the market) using prepayment meters in Great Britain and many of these customers are on low incomes and in vulnerable circumstances.[530] Despite this, prepayment customers pay more for their energy and are less able to spread the cost of their energy throughout the year. Under the April 2022 price cap, the energy bill for a prepayment meter customer with typical usage was £46 more a year than those who pay for their gas and electricity by direct debt. Keith Anderson, CEO, Scottish Power, described this as "perverse".[531] The explanation provided by Ofgem for this differential was that it costs more to run a prepayment meter.[532]

195. From 2017 to the end of 2020, prepayment customers were able to access a Safeguard Tariff (the Prepayment Meter Price Cap).[533] However, from January 2021, Ofgem combined this into the Default Tariff Cap. This meant that the specific protections for prepayment customers were subsumed into the wider energy price cap, resulting in them paying more for policy costs, such as for smart metering.[534] The NEA contested this at the time, and stated that it was given guarantees from the Government and Ofgem that this decision would not be made.[535] It calculated that for prepayment customers and/or for those eligible for the Warm Home Discount this resulted in an increase of £60-£70 per year, compared to the protection offered by the wider default price cap.[536] NEA called on Ofgem to reinstate the Safeguard Tariff in the short-term, while a social tariff[537] is developed, to align the costs paid by prepayment customers with direct debit customers.[538]

196. **It is unacceptable that prepayment customers, who are often moved to a prepayment meter because they cannot afford their energy bill, pay more for their energy than direct debit customers.** ***We recommend that Ofgem addresses this differential, for example by reinstating the Safeguard Tariff for prepayment customers, to ensure that they pay no more than direct debit customers for their energy. This would be a temporary measure while the Government consults on the operation of a social tariff.***

Self-disconnection

197. Prepayment customers who cannot afford to top up their meter can either self-ration their energy supply or self-disconnect. In December 2020, Ofgem introduced new requirements for suppliers to identify prepayment customers who self-disconnect, or are at risk of self-disconnection, and to offer short-term support through emergency and friendly hours credit,[539] particularly to those in vulnerable circumstances.[540] Citizens Advice and NEA found that these rules are not being enforced by Ofgem.[541]

530 HC Deb, 22 February 2022, cols 166 [Commons Chamber]
531 Q203 [Keith Anderson]
532 Q508 [Jonathan Brearley]
533 This followed from recommendations made in the CMA's review. For more information, see: Competition Markets Authority, *Energy market investigation: final report*, 24 June 2016, p 57–59
534 National Energy Action (EPM0045)
535 ibid.
536 National Energy Action (EPM0033)
537 A social tariff is explored from paragraph 136 in chapter four.
538 National Energy Action (EPM0045)
539 Friendly hours credit is provided overnight, at weekends and public holidays, when top-up points may be closed, and a customer's prepayment meter runs low or runs out.
540 Ofgem, 'More help for prepayment customers and those struggling with bills', 29 June 2020
541 Citizens Advice (EMP0047); National Energy Action (EPM0045)

198. Ofgem only collects partial data on self-disconnection. Ofgem's data on self-disconnection largely relates to the experience of smart prepayment customers, not the two million customers who use legacy prepayment meters.[542] Suppliers can collect data from smart prepayment meters remotely, compared to legacy prepayment meters where meter readers need to visit the location, making data collection on these customers more challenging.[543] Following a derogation to suppliers during the Covid-19 pandemic, it was only from September 2021, that Ofgem asked suppliers to resume the reporting of information on self-disconnection on a quarterly basis.[544] In a letter to us dated 27 June 2022, Ofgem stated that levels of self-disconnection appear to be broadly stable from September 2021 levels.[545] Although Ofgem does not currently publish data on the levels of self-disconnection, it informed us that it intends to do so from early 2023.[546]

199. Ofgem's assessment of the levels of self-disconnection do not align with the influx of cases that Citizens Advice is responding to. Citizens Advice warned that self-disconnections are now at a record high, with the first four months of 2022 seeing more cases of self-disconnection than the whole of 2021. Citizens Advice told us that in April and May 2022 (the two months following the April price cap increase), it saw 2,401 cases where people were unable to top up their prepayment meter, a 646% increase on April and May 2021.[547] Citizens Advice called on Ofgem to improve its data collection on self-disconnection and for this to be published on a quarterly basis so that the issue can be appropriately monitored and responded to.[548]

200. Citizens Advice estimated that if energy bills rise to £3,000 this winter prepayment customers will need to spend at least £10 a day on their energy usage, double the daily cost of the 2021 winter.[549] Despite the significant risk to prepayment customers this winter, Jonathan Brearley, CEO, Ofgem, told us that it has not yet carried out all of the impact assessment to understand how increases in the October price cap could affect households. He added, "it is very hard to predict on things like self-disconnection".[550]

201. **We are concerned by reports that self-disconnection is already at a record high, and this is before the expected, unprecedented rise to the energy price cap this winter. Ofgem only collects partial data on self-disconnection and does not have a sufficient understanding of the risks facing prepayment customers come October.**

202. ***We recommend that Ofgem urgently improves its data collection on self-disconnection and publishes this on a more frequent basis. We ask Ofgem to conduct an impact analysis on how expected increases to the price cap this winter will affect customers at risk of self-disconnection. We call on Ofgem to review the existing Ability To Pay framework to determine whether further, immediate action is needed to address an increase in self-disconnection come October. We also ask Ofgem, ahead of this winter,***

542 Citizens Advice (EMP0047)
543 National Energy Action, *Maximising the smart meter roll out for prepayment customers*, June 2021
544 For the past two years, in response to suppliers experiencing capacity challenges during the Covid-19 pandemic, Ofgem provided suppliers with a derogation, so they did not need to provide this information. As a result of this derogation, NEA said there was "no visibility over, for example, the level of debt in the market". National Energy Action (EPM0011)
545 Ofgem, Letter from CEO to Chair with follow-up from oral evidence session on 24 May 2022, 27 June 2022
546 Ofgem (EMP0044)
547 Citizens Advice (EMP0047)
548 Citizens Advice (EPM0014)
549 Citizens Advice, *Crunch point*, 18 March 2022, p 7
550 Q514 [Jonathan Brearley]

to work with suppliers to help identify vulnerable prepayment customers who are at risk of self-disconnection, for example those who have high energy demand due to the use of medical equipment and offer to convert these users to credit mode to maintain their supply.

Smart prepayment meters

203. There are approximately two million households in Great Britain using a legacy prepayment meter.[551] These customers rely on outdated technology which requires them to leave their house to top up the meter, face a limited selection of tariffs and are at greater risk of self-disconnection. By installing smart prepayment meters, customers can top up without leaving their home, access a greater choice of tariffs, and suppliers are able to collect better data about usage and intervene in instances where customers are at risk of self-disconnection, for example, by automatically applying credit vouchers.[552]

204. Ofgem's New and Replacement Obligation (NRO), in the supplier licence, requires energy companies to take all reasonable steps to install a compliant smart meter in instances where a meter is replaced or installed for the first time.[553] In a letter to suppliers dated 30 March 2022, Ofgem stated that suppliers should be taking "all reasonable steps" to ensure that prepayment customers receive smart meters".[554] However, NEA warned us that when customers are falling behind on their energy bills, suppliers are installing legacy prepayment meters rather than smart prepayment meters.[555]

205. **Replacing legacy prepayment meters with smart prepayment meters is crucial to protecting vulnerable customers in the coming months because they allow suppliers to identify customers who are at risk of self-disconnection and provide immediate support. Yet we are hearing reports that, once again, Ofgem is not enforcing its rules which require suppliers to install smart prepayment meters, rather than legacy prepayment meters, when customers are in payment difficulty.**

206. ***We call on Ofgem to enforce its New and Replacement Obligation in the supplier licence. We recommend that the Government makes it mandatory for all prepayment households to have a smart meter installed urgently, irrespective of supplier, so that it is easier to identify when customers are struggling to maintain supply and provide emergency credit. We recommend that Ofgem and BEIS set a target to end all self-disconnections by the end of the smart meter roll out (end of 2025).***

551 National Energy Action, 'Vulnerable 'pay as you go' energy customers put at 'needless' risk during pandemic', 28 June 2021

552 National Energy Action , Maximising the smart meter rollout for prepayment customers, June 2021

553 Electricity Supply Licence SLC 39.7 & Gas Supply Licence SLC 33.7

554 Ofgem, 'Smart Meter Rollout: Open letter on Energy Suppliers' Delivery of the Roll out and Regulatory Obligations', 22 March 2022. In January 2022, a four-year smart metering framework began, which sets the minimum annual installation targets for energy suppliers. Suppliers are required to provide their installation targets for the year to Ofgem and these must also be published on the supplier's website. As part of this framework, large suppliers are required to publish data around their targets and performance on the split between credit/prepayment smart meters they install. Additionally, from 2023, suppliers will report to Ofgem how they performed against their targets for the preceding year and publish this on their website. Ofgem (EMP0044)

555 We acknowledge that there are difficulties in installing smart prepayment meters, for example, in some property types like blocks of flats and some rural properties, the availability of installers and difficulty in upgrading certain meter types relate to the constraints of the DCC network. For more information, see: National Energy Action, *Maximising the smart meter roll out for prepayment customers*, p 37–39

Energy efficiency

207. While we welcome the one-off support package announced by the then Chancellor of the Exchequer on 26 May 2022, it only addressed the symptoms of the energy price crisis, rather than the underlying causes. With energy bills expected to stay above 2021 levels until 2030,[556] the affordability challenge will persist without action to reduce household gas demand. A number of witnesses told us that immediate investment in measures to improve household energy efficiency would permanently bring down energy bills (thereby reducing the amount of support required), help to meet climate and fuel poverty obligations, and unlock substantial economic returns.[557]

208. The benefits of energy efficiency are well known by Government,[558] and it has set ambitious energy efficiency targets.[559] However, our predecessor Committee's report, *Energy efficiency: Building towards net zero*, published in July 2019, and the Environmental Audit Committee's report, *Energy efficiency of existing homes*, published in March 2021, found that over the last decade, the Government has presided over a stop-start policy approach in this area, with severe consequences for the energy efficiency supply chain.[560] In 2012, the UK installed 2.3 million insulation measures, but the Government cut support in a bid to reduce levies on energy bills, which slashed uptake. The rate of installations has since averaged 10% of that peak level.[561] As displayed in Figure 6, the Climate Change Committee estimated that the number of homes receiving upgrades needs to increase close to levels last seen in 2012 to reach net zero, but in 2021 Government schemes supported upgrades of just 150,000 homes.[562] The Government's pathway to net zero sees a million homes treated per year by 2030.[563] The Climate Change Committee calculated that UK consumers would have saved £1 billion on their energy bills in 2022 if rates of home insulation had continued at their 2012 level, and the zero-carbon homes standard[564] had come into force in 2016 as originally intended.[565]

556 Cornwall Insight, 'Energy prices to remain significantly above average up to 2030 and beyond', 20 April 2022

557 See for example: Centrica (EPM0024); EDF Energy (EPM0031); Age UK (EPM0009); E.ON (EPM0013); Q210 [Michael Lewis]; Q109 [Emma Pinchbeck]

558 HM Government, *Heat and Buildings Strategy*, CP 388, October 2021; Department for Business, Energy and Industrial Strategy, *Energy White Paper*, CP 337 December 2020; HM Government, The Ten Point Plan for a Green Industrial Revolution, November 2020; HM Government, 'British Energy Security Strategy', 7 April 2022

559 The Clean Growth Strategy set a target to upgrade as many houses to EPC Band C by 2035 "where practical, cost-effective and affordable", and for all fuel poor households, and as many rented homes as possible, to reach the same standard by 2030. GOV.UK, *Clean Growth Strategy*, October 2017

560 Environmental Audit Committee, Energy Efficiency of Existing Homes, Fourth Report of Session 2019–21, HC 346, 16 March 2021; HC 1730 Business, Energy and Industrial Strategy Committee, Energy Efficiency: Building Towards Net Zero, Twenty-First Report of Session 2017–19, HC 1730, 12 July 2019. E3G also found that the UK spends more money on energy wasted through leaky homes than any other country in Western Europe. See: E3G, 'Home energy security strategy: the permanent solution for lower bills', 7 June 2022

561 Energy and Climate Intelligence Unit, 'Insulation and gas prices', 16 June 2022

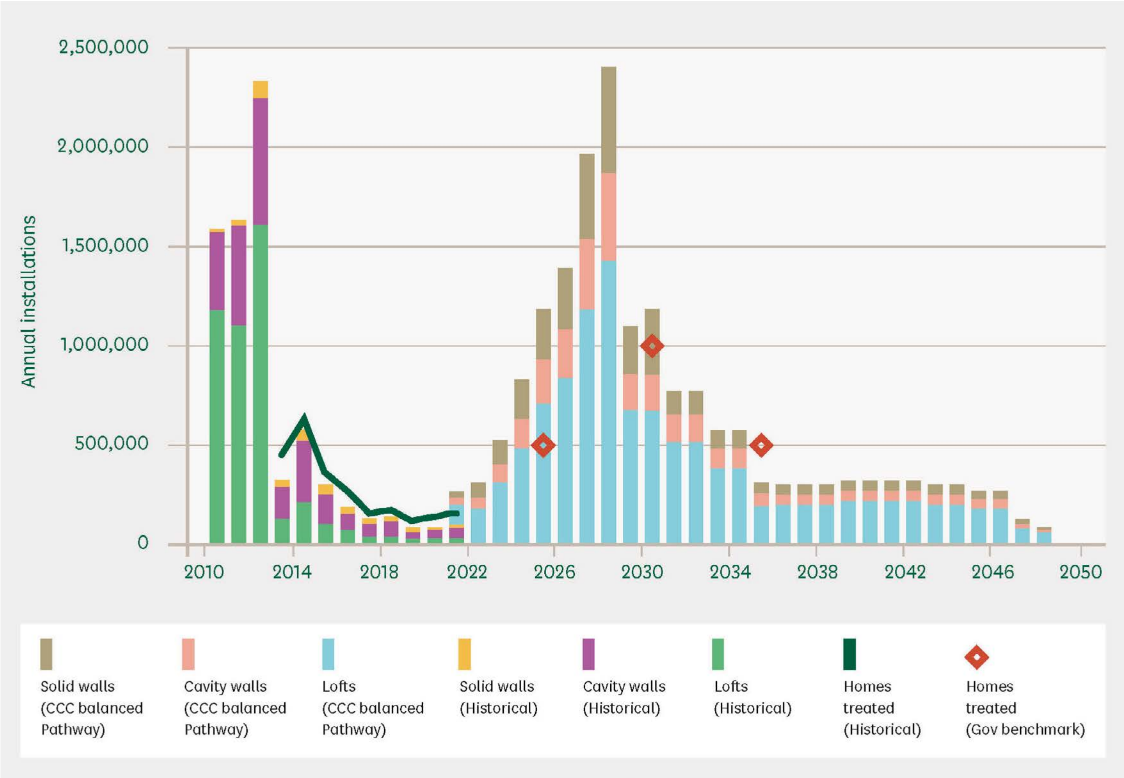
562 Climate Change Committee, *Progress in reducing emissions 2022 Report to Parliament*, June 2022, p 156

563 ibid.

564 The 2007 'Building a greener future: policy statement' required all new homes to be 'zero carbon' by 2016. In July 2015, after nine years of discussions with housebuilders and the gearing up of the supply chain, the policy was dropped by the Treasury six months before its expected implementation in an attempt to speed up housebuilding.

565 Climate Change Committee, Letter to Rt Hon Kwasi Kwarteng MP on the proposed Climate Compatibility Checkpoint for oil and gas licensing in the North Sea, 24 Feb 2022

Figure 6: Home energy efficiency installations



209. The Government has so far failed to bring forward a replacement for its failed Green Homes Grant scheme which was discontinued on 31 March 2021. The Green Homes Grant was an important and welcomed initiative. However, as detailed in our *Decarbonising heat in homes* report, published in February 2022, the way in which it was hastily designed by the Government, as a short-term stimulus instead of a long-term national infrastructure project, meant that the scheme did not deliver the expected number of home energy efficiency installations or support the expected number of jobs.[566] As we recommended, instead of abandoning energy efficiency policy, the Government should have learned lessons from the scheme and brought forward replacement policies.[567]

210. The Government's *Energy Security Strategy*, published on 7 April 2022, and the Energy Bill [HL], introduced to Parliament on 6 July 2022, included little mention of energy efficiency.[568] The strategy stated that energy efficiency was "the first step" to reducing our dependence on gas following Russia's invasion of Ukraine, yet it included no new policies for energy efficiency measures.[569] Michael Lewis, CEO, E. ON told us that:

> the energy security strategy […] was actually an energy supply strategy, and we also need an energy demand strategy—in other words, energy efficiency. For us, that was the big gap. These are things that we can do quickly. These are things that we can ramp up for vulnerable customers very quickly. We

566 Business, Energy and Industrial Strategy Committee, *Decarbonising heat in homes,* Seventh Report of Session 2021–22, HC 1038, p 33–34, for more information see also: National Audit Office, *Green Homes Grant Voucher Scheme*, 8 September 2021

567 ibid.

568 Energy Bill, HL Bill 39, 7 July 2022; HM Government, 'British Energy Security Strategy', 7 April 2022

569 HM Government, 'British Energy Security Strategy', 7 April 2022

> were very disappointed that the Government did not address that directly, because that is the silver bullet for solving some of our short-term energy problems.[570]

211. In its *Home Energy Security Strategy: the permanent solution for lower bills* report, published in June 2022, E3G (a climate change think thank) calculated that when the energy price cap rises again in October 2022 the average household in a home with an Energy Performance Certificate (EPC) of D or below (at least 15.3 million UK households) will pay an 'inefficiency penalty' of £916 more per year for adequate heating than the average household living in a home rated EPC C or better. If every home below EPC C was improved, the aggregate bill saving would be £10.6 billion each year at today's prices.[571]

212. Whilst the focus has understandably been on the costs of heating our homes, the repeated and increasingly hot summers will result in more homes installing cooling and air conditioning equipment. This will inevitably result in increased heating and cooling costs throughout each year, primarily from electricity, in comparison to the current assumption that energy billpayers use more energy in winter and less in the summer (with the higher cost of winter bills being spread out throughout the year). This in itself will result in a consistently higher cost for energy billpayers and once again highlights the importance of reducing the need for energy in the first place, by bringing forward energy efficiency works in homes which will keep buildings warm in winter and cool in summer.

213. On 16 June 2022, the Times reported that the Government has been drawing up plans to insulate hundreds of thousands more homes before winter by allocating additional money to the Energy Company Obligation (ECO) scheme[572] (which is currently funded through billpayers and insulates the homes of fuel poor, low income and vulnerable customers) and expanding its eligibility criteria to middle-income households if they are willing to contribute to the measures.[573] However, the article reported that the Government could divert money from the £1 billion Public Sector Decarbonisation Scheme[574] to fund this expansion, which focuses on making schools, hospitals and other public buildings more energy efficient. According to the article, the Government also considered using money from the £450 million boiler upgrade scheme that subsidises heat pumps and pulled all communications surrounding the launch of the scheme. However, Ministers were reportedly advised that it was too late to divert the funds.[575]

214. On 28 June 2022, we asked the Secretary of State whether a new home insulation programme will take money from the Public Sector Decarbonisation Scheme. He responded:

570 Q210 [Michael Lewis]

571 E3G, 'Home energy security strategy: the permanent solution for lower bills', 7 June 2022

572 The Energy Company Obligation (ECO), first introduced in 2013, is an energy efficiency scheme for Great Britain. ECO places legal obligations on energy suppliers to deliver energy efficiency measures to domestic premises. It focuses on low income and vulnerable and fuel poor consumer groups through the installation of insulation and heating measures.

573 'Boris Johnson hatches plan to insulate Britons against winter bills', The Times, 16 June 2022

574 The Public Sector Decarbonisation Scheme supports the aim of reducing emissions from public sector buildings by 75% by 2037, compared to a 2017 baseline, as set out in the 2021 Net Zero and Heat and Buildings strategies. Phase 3 of the Public Sector Decarbonisation Scheme will provide £1.425 billion of grant funding over the financial years 2022/2023 to 2024/2025, through multiple application windows.

575 'Boris Johnson hatches plan to insulate Britons against winter bills', The Times, 16 June 2022

> some of the money has to be reallocated. I absolutely think that, and I have made those decisions. If we are going to have a high-speed, ambitious energy efficiency rollout, we cannot simply just print more money to finance that. [..] I can't simply go beyond my CSR [spending] envelope.[576]

215. However, we note that the Government pledged £9.2 billion of investment in energy efficiency at the last general election, of which £1.4 billion has still not been allocated to any scheme.[577] We support action to expand ECO, but diverting money from the Public Sector Decarbonisation is counterproductive. Taxpayers would be left picking up higher public sector running costs for longer and carbon savings from larger projects would be missed.[578]

216. **Energy efficiency is the quickest and most cost-effective way to reduce gas demand and lower household energy bills. The absence of a home insulation programme is an unacceptable gap in policy that must be urgently rectified. Since wholesale prices rose following July 2021, tens of thousands of homes could have been insulated each week had there been the political will to do so. Without addressing the underlying problem of draughty homes, the Government will again be forced to introduce costly and avoidable short-term fixes. While we would support action to boost the Energy Company Obligation, diverting funds away from other energy efficiency schemes is unacceptable.**

217. ***We reiterate our previous views that the Government should implement urgent, far-reaching, and long-term measures to replace the Green Homes Grant scheme that provides the energy efficiency supply chain with confidence of enduring demand and ends the stop-start policy approach in this area once and for all. We urge the Government not to divert funds from other energy efficiency schemes to pay for this.***

576 Q70–71 [Rt Hon Kwasi Kwarteng MP]
577 Conservatives, 'Get Brexit Done Unleash Britain's Potential', 2019, p 55
578 E3G calculated that the NHS would lose out on £519m if the programme is cut. E3G, Scrapping public sector energy efficiency policy could cost NHS £500m+, 16 June 2022

6 Conclusion

218. **A systemic failure in regulation left the energy supply market, and ultimately taxpayers, more exposed when the global wholesale energy crisis began. Some energy supplier businesses were allowed to behave in an entirely unacceptable way, without any consequence for their actions. The Government prioritised competition over effective market supervision, failing to recognise the fundamental importance of energy supply and maintain sight over Ofgem's actions. Ofgem's failure to regulate and supervise the energy retail market over the last decade significantly contributed to the collapse of 29 energy suppliers since July 2021. Ofgem did not enforce the rules that were in place and did not understand the business models of the suppliers it is mandated to supervise.**

219. **The energy price crisis is putting continued strain on the remaining suppliers in the market. At the same time, Ofgem is proceeding with a programme of major regulatory reform with the objective to reverse its previous litany of shortcomings and shore up the financial resilience of the market. However, if its policies are poorly designed and executed, they could have the opposing effect and further destabilise the market, at additional cost to households and/or taxpayers. We remain unconvinced of Ofgem's ability to undertake regulatory reform in a way that effectively manages the complex trade-offs or range of business models in the market. We are concerned that it will address its inability to monitor and enforce principle-based rules by implementing an overly prescriptive regulatory regime. We have outlined a wide range of actions Ofgem should take to improve its performance and we will provide greater oversight of the regulator in the future.**

220. **The impact of the energy price crisis on households is ongoing and severe, particularly in the context of other considerable inflationary pressures, and is likely to cause an unacceptable rise in fuel poverty and hardship this winter. With wholesale prices continuing to rise, the energy price cap is now expected to increase to well over £3,000 this winter, and to remain elevated thereafter. The scale of these price increases now renders the Government's May 2022 support package insufficient. The Government needs to provide an urgent update to the support available to avoid a very serious crisis this winter. The Government will need to take an agile approach to delivering vital support to households as the situation develops. But enduring solutions are needed, including an urgent consultation on a social tariff and a far-reaching home insulation programme.**

221. **With the worst yet to come, the consequences of the energy price crisis and wider cost-of-living crisis on customers, and energy suppliers, is still to be seen. The extent of these challenges cannot be dealt with by BEIS or Ofgem alone. The Prime Minister himself stated the Government's response to this pressing situation needs to be treated with the same level of seriousness as the Covid-19 pandemic. The responsibility to deal with this crisis spans across multiple Government departments and the Government needs to galvanise the resources and expertise at its disposal. This will require ministerial leadership and a cross-departmental taskforce.** ***We recommend that the Government urgently sets up a cross-departmental taskforce, like the Brexit taskforce, to respond to the energy price crisis and wider cost-of-living. This taskforce should meet***

regularly to support Ofgem and other arms of the Government to do the work necessary to provide the best possible outcomes for consumers and stabilise the energy supply market.

Conclusions and recommendations

Introduction

1. Until June 2019, Ofgem granted energy suppliers a licence to operate in the market without ensuring they had access to sufficient levels of working capital, an acceptable business plan, or were run by individuals with relevant expertise. Ofgem's delay to the Supplier Licensing Review was unacceptable and inexcusable which, if carried out when it should have been, would have reduced the recent costs of supplier failure. Ofgem's negligence has contributed to higher energy bills, which is in complete contradiction to its mandate to act in the interests of consumers. (Paragraph 25)

2. The lack of ongoing requirements for suppliers operating in the market allowed thinly capitalised companies to rely on customers' money to fuel business growth and operate with either no hedging or inadequate hedging against future energy prices. These companies took substantial risks to undercut responsible suppliers. The new rules put in place in early 2021 had no meaningful impact on suppliers' practices. Ofgem has proved incompetent as the regulatory authority of this complex market, thereby costing taxpayers billions of pounds. The scale of failure and the cost exposure to taxpayers is only comparable to the financial crash of 2008. (Paragraph 30)

3. Oxera's review of Ofgem's performance to regulate the retail market raised serious and fundamental questions about the regulator's ability to carry out its primary duties. We agree with its findings that Ofgem has no proper frameworks for defining and measuring what consumer interests are or what effective competition means, and that Ofgem failed to understand the business models of the suppliers it is required to regulate and the incentives created by its own regulatory regime. We are surprised and concerned by the absence of robust quantitative impact analyses, which should have been essential in underpinning key decisions on regulating the retail market. That important decisions on tackling risky supplier behaviour were taken by operational teams rather than the Board, demonstrates a complete failure in corporate governance. (Paragraph 36)

4. *We recommend that Ofgem implements the recommendations of the Oxera report in full to ensure that it has the proper frameworks for defining consumer interests and competition. We call on Ofgem to carry out rigorous quantitative impact analysis to underpin regulatory reforms and to make these publicly available for scrutiny. Ofgem must take urgent steps to improve the quality of its governance and the effectiveness of its Board by proactively challenging decisions made within the organisation, ensuring it has the necessary information and sufficient time to vigorously deliberate issues and make evidence-based decisions.* (Paragraph 37)

5. Even when matters of poor practice and potential breaches of licence conditions were directly reported to Ofgem, the regulator repeatedly failed to use its enforcement powers in any meaningful way. This was at the expense of customers who Ofgem is mandated to protect. Telephoning a supplier to tell it to stop using customer credit

balances to drive business growth is neither an appropriate nor formal enough action from a regulator which, given its repeated unwillingness to use its enforcement powers effectively, rendered itself futile. (Paragraph 44)

6. *We call on Ofgem to make full and proper use of its enforcement and compliance powers to clamp down on rule breaking by suppliers, particularly relating to customer service standards. Ofgem should work with the Government to ensure it has the necessary complement of qualified staff working on its enforcement and compliance teams. We ask Ofgem to provide us with a detailed strategy on how it will improve its enforcement and compliance activity to effectively protect customers, and the timelines within which this will be achieved. We expect that from this financial year onwards, and on an annual basis, Ofgem provides a memorandum to this Committee, which includes a breakdown of the allocation of its resources and a summary of the enforcement and compliance action it has taken in response to rule breaking by energy suppliers.* (Paragraph 45)

7. Whilst we have been reassured by Jonathan Brearley that changes are being made to the governance, leadership, and performance of Ofgem we remain deeply concerned that such negligent behaviour was able to take place for so long. If Dermot Nolan was still in post, we would be calling for his dismissal. *We therefore require the current and any future CEO and Chair of Ofgem to report annually to this Committee and to BEIS on the measures in place to ensure effective accountability and transparency required from Ofgem.* (Paragraph 46)

8. Avro Energy improperly used customers' money, including siphoning off customers' cash to different businesses in the directors' names, issuing loans to the directors, and paying poorly performing executives an unreasonably high salary. We were disappointed by the admission from Ofgem's former CEO, Dermot Nolan, that the regulator was oblivious to this activity while it was going on. (Paragraph 55)

9. *We call on the administrators of Avro Energy to request that the Insolvency Service consider bringing action against the former Directors of Avro Energy specifically and to update us on what, if any action, can be taken to recover customers' money.* (Paragraph 56)

10. *We further call on the Government to review whether regulators such as Ofgem should be given new powers to bring enforcement action for unfit conduct by energy company directors given the very limited scope for The Insolvency Service to do so. We consider this to be particularly important for energy supply companies given the handling of customer monies and the importance of security of supply.* (Paragraph 57)

11. We expect Ofgem, as the independent regulator, to clearly outline to Ministers and Parliament the risks and consequences associated with the delivery of Government objectives. We do not believe that Ofgem properly raised the risks to Government, or Parliament, that a deregulatory approach to promoting competition could severely undermine the financial resilience of the energy supplier market. (Paragraph 62)

12. More significantly, we are concerned by the Government's apparent lack of understanding of the extensive failings of the regulator and the consequences that this would have on the market in the event of any demand or supply-side shocks.

While we are not in favour of further interventionism from Government towards Ofgem, we expect BEIS to adhere to the principles set out by the Framework Document. (Paragraph 63)

13. We would encourage more robust lines of communication and a clear delineation of responsibilities between Ofgem and BEIS to ensure transparency and effective scrutiny. (Paragraph 64)

14. *We require Ofgem to start regularly and proactively reporting to the Department on how it is meeting its duties and to inform Ministers of any risks associated with the delivery of Government strategy. We ask the Department and Ofgem to review, update and publish a new Framework Document within six months of the date of this report.* (Paragraph 65)

15. *We recommend that the Government urgently publishes its long-delayed Strategy and Policy Statement for Ofgem to guide the regulator on how to manage the political and distributional trade-offs intrinsic to its responsibilities and clarify the split of responsibilities between Ofgem and BEIS.* (Paragraph 66)

16. We recognise that this Committee has an important role in the scrutiny of Ofgem's activity. We expect the regulator to be carrying out its core functions and delivering on its duties. It is neither feasible nor appropriate for Parliament to scrutinise, in real time, all aspects of Ofgem's decision-making. However, in light of its extensive failures, we commit to undertaking closer scrutiny of Ofgem. *We require Ofgem, to share key decisions, performance issues, and relevant policy concerns with this Committee. This should be in addition to writing to us with its Annual Report and Accounts and making both the Chairman and the Chief Executive Officer available for public scrutiny via this Committee.* (Paragraph 67)

Supplier Exit Arrangements

17. We are concerned that the costs of the Supplier of Last Resort process, which has been added to regressive standing charges on electricity bills, has increased affordability challenges for the most vulnerable customers, at the most difficult time. This is wrong. We welcome Ofgem's recognition of the impact that regressive standing charges have on households and its review of how the Supplier of Last Resort levy is distributed. However, even if these costs are recouped on a usage basis, fuel poor, low income, and vulnerable customers with high energy demand, will still be hit hard. (Paragraph 76)

18. *We recommend that the Government and Ofgem reform the Supplier of Last Resort process so that the costs are more fairly recouped whether through general taxation or energy bills.* (Paragraph 77)

19. The Supplier of Last Resort process ensured that customers of failed energy companies maintained their supply. However, customers carried the risk of failure, while suppliers exited facing minimal costs, and in some cases, even made a financial return. Suppliers of last resort raised pressing concerns about administrators of

failed energy companies not acting in the best interest of customers. The delay in sharing customer information to suppliers of last resort, which led to inaccurate bills and interruptions in retrieving credit balances, is unreasonable. (Paragraph 85)

20. *We support the National Audit Office's recommendation that the Government and Ofgem review and subsequently update the Supplier of Last Resort process to address the problems that arose over the last year, including delays in the transfer of customer information by administrators which prevented the retrieval of credit balances, the treatment of customers in debt, and the imbalance of risk between customers and suppliers.* (Paragraph 86)

21. The Special Administration Regime has been used for the first time to deal with the failure of Bulb Energy, leaving taxpayers exposed to billions of pounds worth of costs. The decision not to implement a hedging strategy may have led to the sale of Bulb being less desirable and significantly increased costs to taxpayers. (Paragraph 94)

22. *We recommend that the Government implements a hedging strategy at Bulb Energy. In the meantime, we ask that the Government provides us with detailed analysis of the cost implications for BEIS and the taxpayer of its decision not to purchase hedges to date.* (Paragraph 95)

23. *We recommend that, given the size of Bulb, the costs of the Special Administration Regime are paid through general taxation, as opposed to recouping the costs from already stretched energy bills. The Government should undertake a review of the Special Administration Regime to consider how to reduce the cost exposure to the taxpayer in future, and report to this Committee within the next six months on the lessons learned and any required reforms. We suggest, as a minimum, that the Treasury guidance is amended to make it clear that energy suppliers in the Special Administration Regime are presumed to be permitted to hedge.* (Paragraph 96)

Reforms to the supplier market

24. We support Ofgem's objective to ensure energy suppliers are well-capitalised and prudently run. If its plans to introduce a capital adequacy regime and improve its monitoring of suppliers' approach to risk management are executed effectively, these measures could reduce the moral hazard in the market and the cost of mutualisation, while stopping the level of unchecked and high-risk growth of suppliers previously seen in the market. (Paragraph 104)

25. *Ofgem should publish detailed proposals that will ensure energy suppliers have a higher level of capital adequacy in the future which is in line with growth. Financial stress testing and monitoring of suppliers' risk management strategies should be conducted by Ofgem as standard. Where individual or systemic problems are identified, Ofgem should work proactively with suppliers to resolve them. We recommend that Ofgem upskills its workforce to ensure it has the appropriate expertise to implement these provisions in an effective and proportionate manner. We ask Ofgem to publish a plan on how it intends to do this.* (Paragraph 105)

26. Our first priority is to ensure that customer credit balances are protected, so that in the event of a supplier failure, customers are always able to recover the credit

they have built up. Our second priority is to ensure that any policies put in place to secure this also prevent an increase in energy bills. We agree that some energy suppliers have taken high risk decisions on the basis that they were spending their customers money and not their own. Any new regulation on the holding of customer credit balances must carefully balance these two priorities whilst not distorting competition between retailers. (Paragraph 117)

27. *Ofgem must publish a more robust impact analysis of its proposals for energy suppliers to ringfence customer credit balances. We expect the impact analysis to be based on evidence received from suppliers following an information request so that it is underpinned by facts, rather than assumptions. The analysis should include comparisons of Ofgem's preferred option with alterative options. It should be transparent and explicit about the implications of the proposal on energy bills and competition in the market, as well as the cumulative impact of this proposal and the other measures Ofgem is taking to boost resilience in the market. This analysis should be shared with this Committee with enough time for scrutiny before a final decision is taken by Ofgem and include an explanation of how Ofgem has balanced our priorities as set out above.* (Paragraph 118)

28. We found consensus from across the sector that the Government should bring forward legislation to increase the frequency of the Renewables Obligation payments. We ask the Government to set out the reasons for repeated delay and failure in this area in its response to this report. (Paragraph 122)

29. *We recommend that the Government brings forward legislation to increase the frequency of Renewables Obligation payment deadlines. The Government and Ofgem should work together to implement this change in a way that provides a suitable period of adjustment for suppliers.* (Paragraph 123)

30. The design of the energy price cap has contributed to recent instability in the supplier market. Ofgem failed to properly stress test its design against a range of scenarios or consider how it interacted with its other regulations. The methodology forced suppliers to subsidise customers, which was clearly not the intended purpose of the price cap. (Paragraph 130)

31. We welcome more frequent calculations of the price cap if this stabilises the supplier market amid current market conditions. However, Ofgem's cost benefit analysis of its proposed move to quarterly price cap updates did not consider the impact that further price rises in January 2023 could have on vulnerable customers, including an increased risk of self-disconnections. (Paragraph 133)

32. *Ofgem should update the cost benefit analysis of its proposal for a quarterly price cap, so it reflects the risk of prices increasing this January, in order for Ofgem, the Government, and Parliament to fully understand the potential impacts for vulnerable customers.* (Paragraph 134)

33. The Energy Bill [HL], which was introduced to Parliament on 6 July 2022, included provisions to extend the energy price beyond 2023, but it will not change how the price cap functions. Neither the Government nor Ofgem has undertaken an evaluation of

its costs and benefits, nor considered alternative forms of price protection, including a social tariff which could provide deeper price protection for vulnerable, fuel poor and low income households. (Paragraph 141)

34. *We ask Ofgem to undertake an immediate review of the costs and benefits of the energy price cap to inform decisions about its operation and alternative forms of price protection.* (Paragraph 142)

35. *We call on the Government to consider the introduction of a social tariff for the most vulnerable customers and a relative tariff for the rest of the market, to be introduced once wholesale energy prices have stabilised. We ask the Government and Ofgem to report its findings on the above issues within nine months of the date of this report.* (Paragraph 143)

36. The Government's failure to regulate third-party intermediaries in combination with Ofgem's failure to regulate energy suppliers led to third-party intermediaries promoting energy suppliers with flawed business models and unsustainable pricing. We are concerned that third-party intermediaries did not pay sufficient regard to understanding customers' needs and ensuring customer service standards. (Paragraph 151)

37. *We recommend that the Government brings forward regulation of third-party intermediaries. Regulations should ensure that third-party intermediaries encourage customers to switch not just on price, but also on customer service standards and other factors. The regulations should also ensure that third-party intermediaries are transparent about the services offered and the suppliers that they work with, provide an explanation of remuneration and access to advice and redress for customers. The regulations need to be future proofed for the significant role that third-party intermediaries are expected to play in the transition to net zero.* (Paragraph 152)

38. The previous Energy Retail Market Strategy was primarily driven by the objective to accelerate switching rates. The collapse of energy retailers demonstrated the flaws of this approach. The revised retail strategy will need to develop a market that differentiates not just on price, but on the services offered by suppliers. It needs to create incentives for customers to make the investments needed to decarbonise their homes and reward suppliers for providing enticements to reduce demand. It will need to provide protection for, and reduce the barriers to, customers who are at risk of missing out on the benefits of this market. (Paragraph 161)

39. *The Department and Ofgem must urgently update the Energy Retail Market Strategy so that the supplier retail market aligns with our net zero target; this must include interim milestones and high-level principles about the role suppliers will play in achieving net zero.* (Paragraph 162)

40. *In order to deliver the Government's target of a zero carbon electricity system by 2035, we further recommend that greater consideration is given to smart tariffs in the revised Energy Retail Market Strategy. Specifically, we ask the Government to consider how time of use tariffs can be supported while the necessary system reforms are being carried out. Consideration should also be given as to how to support the energy supplier market in engaging different customer groups in net zero and ensure sufficient protections are in place for vulnerable customers.* (Paragraph 163)**.**

Support for households

41. We are gravely concerned by the latest forecasts from industry experts that the price cap will increase to £3,244 in October 2022 and £3,363 in January 2023. This will have very serious consequences for households across the country, particularly those that are on low incomes, in fuel poverty, and in vulnerable circumstances. The Government's May 2022 support package is welcome but will now be eclipsed by the scale and longevity of the price increases, and we are concerned that public funds are still not being targeted adequately enough to those who need it the most. *We urge the Government to provide an immediate and better targeted update to its support package that aligns with the expected scale of price increases.* (Paragraph 170)

42. We note some delivery risks in ensuring the Energy Bills Support Scheme reaches vulnerable customers this winter, including certain types of tenants, customers using legacy prepayment meters, and those who are in debt to their energy provider. (Paragraph 173)

43. *We recommend that the Government ensures there are sufficient safeguards in place for tenants to benefit from the Energy Bills Support Scheme. We recommend that the Government pays the scheme via a negative standing charge to mitigate the risk of prepayment customers not redeeming their vouchers and to ensure it reduces the costs of energy for customers in debt.* (Paragraph 174)

44. While the Government committed to publishing a Fairness and Affordability call for evidence over a year ago, this is yet to materialise. This is a vital piece of work which will need to address how to allocate energy policy costs in a way that incentivises cost-effective decarbonisation while avoiding harmful impacts on vulnerable groups, particularly in the context of continuing rises in wholesale gas prices. It is also an important opportunity to review the impact that standing charges have on vulnerable customers, particularly those using prepayment meters. (Paragraph 181)

45. *We recommend that the Government urgently publishes its overdue Fairness and Affordability call for evidence, particularly in the context of rising energy prices. We recommend that the review includes a distributional analysis of the impact that recovering policy costs from electricity and gas bills has on vulnerable customers and considers moving legacy policy costs to general taxation. Any reapportioning of policy costs from electricity to gas bills must be accompanied by mitigating negative impacts on fuel poor and vulnerable consumers. The review should also include an assessment of the impact that standing charges have on vulnerable customers, and whether these charges are appropriate for customers using prepayment meters.* (Paragraph 182)

46. Ofgem should require energy suppliers to take a pro-consumer approach to payments and debt collections. *We urge Ofgem to take swift and firm action in response to suppliers breaching the Ability To Pay licence conditions and ensure that suppliers promote a range of debt repayment options.* (Paragraph 187)

47. Energy prices are expected to increase to unprecedented levels and the Government's May 2022 support package will no longer offset the significant increases for households. A considerable number of households will struggle to pay their energy bills and will be at risk of accruing large sums of debt to their energy provider. This could further destabilise the energy supply market and result in bad debt being

mutualised. The lack of data published by Ofgem on the levels of debt in the market makes it difficult for the sector to assess and address the extent of the issue. (Paragraph 192)

48. *We recommend that the Government develops a scheme to help vulnerable customers accelerate the repayment of debt that has accrued as a result of the energy pricing crisis, for example, by matching the contribution made by customers through the Fuel Direct scheme. We also recommend that Ofgem publishes data on the levels of debt in the market on a quarterly basis. We ask Ofgem to update and publish its analysis on the levels of bad debt it expects energy suppliers to accrue this winter after accounting for further increases to the price cap and the Government's support package announced in May 2022.* (Paragraph 193)

49. It is unacceptable that prepayment customers, who are often moved to a prepayment meter because they cannot afford their energy bill, pay more for their energy than direct debit customers. *We recommend that Ofgem addresses this differential, for example by reinstating the Safeguard Tariff for prepayment customers, to ensure that they pay no more than direct debit customers for their energy. This would be a temporary measure while the Government consults on the operation of a social tariff.* (Paragraph 196)

50. We are concerned by reports that self-disconnection is already at a record high, and this is before the expected, unprecedented rise to the energy price cap this winter. Ofgem only collects partial data on self-disconnection and does not have a sufficient understanding of the risks facing prepayment customers come October. (Paragraph 201)

51. *We recommend that Ofgem urgently improves its data collection on self-disconnection and publishes this on a more frequent basis. We ask Ofgem to conduct an impact analysis on how expected increases to the price cap this winter will affect customers at risk of self-disconnection. We call on Ofgem to review the existing Ability To Pay framework to determine whether further, immediate action is needed to address an increase in self-disconnection come October. We also ask Ofgem, ahead of this winter, to work with suppliers to help identify vulnerable prepayment customers who are at risk of self-disconnection, for example those who have high energy demand due to the use of medical equipment and offer to convert these users to credit mode to maintain their supply.* (Paragraph 202)

52. Replacing legacy prepayment meters with smart prepayment meters is crucial to protecting vulnerable customers in the coming months because they allow suppliers to identify customers who are at risk of self-disconnection and provide immediate support. Yet we are hearing reports that once again Ofgem is not enforcing its rules which require suppliers to install smart prepayment meters, rather than legacy prepayment meters, when customers are in payment difficulty. (Paragraph 205)

53. *We call on Ofgem to enforce its New and Replacement Obligation in the supplier licence. We recommend that the Government makes it mandatory for all prepayment households to have a smart meter installed urgently, irrespective of supplier, so that*

it is easier to identify when customers are struggling to maintain supply and provide emergency credit. We recommend that Ofgem and BEIS set a target to end all self-disconnections by the end of the smart meter roll out (end of 2025). (Paragraph 206)

54. Energy efficiency is the quickest and most cost-effective way to reduce gas demand and lower household energy bills. The absence of a home insulation programme is an unacceptable gap in policy that must be urgently rectified. Since wholesale prices rose following July 2021, tens of thousands of homes could have been insulated each week had there been the political will to do so. Without addressing the underlying problem of draughty homes, the Government will again be forced to introduce costly and avoidable short-term fixes. While we would support action to boost the Energy Company Obligation, diverting funds away from other energy efficiency schemes is unacceptable. (Paragraph 216)

55. *We reiterate our previous views that the Government should implement urgent, far-reaching, and long-term measures to replace the Green Homes Grant scheme that provides the energy efficiency supply chain with confidence of enduring demand and ends the stop-start policy approach in this area once and for all. We urge the Government not to divert funds from other energy efficiency schemes to pay for* this. (Paragraph 217)

Conclusion

56. A systemic failure in regulation left the energy supply market, and ultimately taxpayers, more exposed when the global wholesale energy crisis began. Some energy supplier businesses were allowed to behave in an entirely unacceptable way, without any consequence for their actions. The Government prioritised competition over effective market supervision, failing to recognise the fundamental importance of energy supply and maintain sight over Ofgem's actions. Ofgem's failure to regulate and supervise the energy retail market over the last decade significantly contributed to the collapse of 29 energy suppliers since July 2021. Ofgem did not enforce the rules that were in place and did not understand the business models of the suppliers it is mandated to supervise. (Paragraph 218)

57. The energy price crisis is putting continued strain on the remaining suppliers in the market. At the same time, Ofgem is proceeding with a programme of major regulatory reform with the objective to reverse its previous litany of shortcomings and shore up the financial resilience of the market. However, if its policies are poorly designed and executed, they could have the opposing effect and further destabilise the market, at additional cost to households and/or taxpayers. We remain unconvinced of Ofgem's ability to undertake regulatory reform in a way that effectively manages the complex trade-offs or range of business models in the market. We are concerned that it will address its inability to monitor and enforce principle-based rules by implementing an overly prescriptive regulatory regime. We have outlined a wide range of actions Ofgem should take to improve its performance and we will provide greater oversight of the regulator in the future. (Paragraph 219)

58. The impact of the energy price crisis on households is ongoing and severe, particularly in the context of other considerable inflationary pressures, and is likely to cause an unacceptable rise in fuel poverty and hardship this winter. With wholesale

prices continuing to rise, the energy price cap is now expected to increase to well over £3,000 this winter, and to remain elevated thereafter. The scale of these price increases now renders the Government's May 2022 support package insufficient. The Government needs to provide an urgent update to the support available to avoid a very serious crisis this winter. The Government will need to take an agile approach to delivering vital support to households as the situation develops. But enduring solutions are needed, including an urgent consultation on a social tariff and a far-reaching home insulation programme. (Paragraph 220)

59. With the worst yet to come, the consequences of the energy price crisis and wider cost-of-living crisis on customers, and energy suppliers, is still to be seen. The extent of these challenges cannot be dealt with by BEIS or Ofgem alone. The Prime Minister himself stated the Government's response to this pressing situation needs to be treated with the same level of seriousness as the Covid-19 pandemic. The responsibility to deal with this crisis spans across multiple Government departments and the Government needs to galvanise the resources and expertise at its disposal. This will require ministerial leadership and a cross-departmental taskforce. We recommend that the Government urgently sets up a cross-departmental taskforce, like the Brexit taskforce, to respond to the energy price crisis and wider cost-of-living. This taskforce should meet regularly to support Ofgem and other arms of the Government to do the work necessary to provide the best possible outcomes for consumers and stabilise the energy supply market. (Paragraph 221)

Formal Minutes

Tuesday 19 July 2022

Members present:

Darren Jones, in the Chair

Alan Brown

Paul Howell

Charlotte Nichols

Mark Pawsey

Energy pricing and the future of the energy market

Draft Report (*Energy pricing and the future of the energy market*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 221 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Tuesday 6 September at 9:45am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 8 February 2022

Jonathan Brearley, Chief Executive Officer, Ofgem; **Neil Kenward**, Director of Strategy and Decarbonisation, Ofgem; **Neil Lawrence**, Director of Retail, Ofgem Q1–92

Peter Smith, Director of Policy and Advocacy, National Energy Action; **Jonathan Marshall**, Senior Economist, The Resolution Foundation; **Stephen Fitzpatrick**, Founder, OVO Energy; **Emma Pinchbeck**, Chief Executive, Energy UK Q93–142

Tuesday 22 March 2022

Gillian Cooper, Head of Energy Policy, Citizens Advice; **Martin Lewis CBE**, Chair, Money Saving Expert Q143–165

Rachel Fletcher, Director Regulation and Economics, Octopus Energy; **Simon Oscroft**, Co-Founder, So Energy Q166–184

Nishma Patel, Policy Director, Chemical Industries Association; **Dr Richard Leese**, Chair, Energy Intensive Users Group; **Paul Wilson**, Policy Director, Federation of Small Businesses Q185–198

Tuesday 19 April 2022

Michael Lewis, CEO, E.ON; **Simone Rossi**, CEO, EDF; **Keith Anderson**, CEO, ScottishPower; **Chris O' Shea**, CEO, Centrica Q199–264

Hayden Wood, CEO & Co-Founder, Bulb Energy Q265–310

Jake Brown, CEO, Avro Energy Q311–407

Tuesday 24 May 2022

Dermot Nolan, former CEO, Ofgem Q408–483

Jonathan Brearley, Chief Executive Officer, Ofgem; **Neil Lawrence**, Director of Retail, Ofgem; **Neil Kenward**, Director of Strategy and Decarbonisation, Ofgem Q484–536

Rt Hon Kwasi Kwarteng MP, Secretary of State, Department for Business, Energy & Industrial Strategy; **Daniel Osgood**, Director, Energy Security, Markets & Analysis, Department for Business, Energy & Industrial Strategy Q537–626

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

EPM numbers are generated by the evidence processing system and so may not be complete.

1 Age UK (EPM0009)

2 Bulb (EPM0021)

3 Centrica (EPM0024)

4 Chemical Industries Association (EPM0006)

5 Citizens Advice (EPM0014)

6 Citizens Advice (EPM0047)

7 Confederation of Paper Industries (CPI) (EPM0018)

8 Department for Business, Energy and Industrial Strategy (EPM0027)

9 E.ON (EPM0032)

10 E.ON (EPM0013)

11 EDF Energy (EPM0031)

12 ELEXON (EPM0016)

13 Energy Intensive Users' Group (EPM0015)

14 Energy UK (EPM0028)

15 Field, Dr Sean (Research Fellow, Centre for Energy Ethics | Department of Social Anthropology | University of St Andrews); High, Dr Mette (Reader | Director, Centre for Energy Ethics | Department of Social Anthropology | University of St Andrews); Skrzypek, Dr Emilka (Senior Policy Fellow , Centre for Energy Ethics | University of St Andrews); and Ulph, Professor David (Emeritus Professor | CBE, Centre for Energy Ethics | University of St Andrews) (EPM0023)

16 Future (EPM0038)

17 Hughes, Dr. Nick (Senior Research Fellow, University College London Institute for Sustainable Resources) (EPM0020)

18 MoneySuperMarket.com (EPM0037)

19 National Energy Action (EPM0033)

20 National Energy Action (EPM0011)

21 National Energy Action (EPM0045)

22 OVO (EPM0034)

23 Octopus Energy (EPM0042)

24 Octopus Energy (EPM0010)

25 Ofgem (EPM0030)

26 Ofgem (EPM0044)

27 Ombudsman Services (EPM0008)

28 Osmon, Mr David (EPM0022)

29 OVO (EPM0046)

30 Policy Exchange (EPM0004)

31 Prospect (EPM0003)

32 RWE (EPM0012)

33 Scottish Power (EPM0029)

34 So Energy (EPM0043)

35 So Energy (EPM0025)

36 Switchcraft (EPM0040)

37 Switchd (EPM0039)

38 TheEnergyShop.com (EPM0041)

39 Trades Union Congress (EPM0017)

40 UK Steel (EPM0007)

41 Utilita Energy Limited (EPM0019)

42 uSwitch (EPM0035)

43 Which? (EPM0036)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
2nd	Draft Legislative Reform (Provision of Information etc. relating to disabilities) Order 2022	HC 522
1st Special	Decarbonising heat in homes: Government Response to the Committee's Seventh Report of 2021–22	HC 208

Session 2021–22

Number	Title	Reference
1st	Post-pandemic economic growth: Industrial policy in the UK	HC 385
2nd	Climate Assembly UK: where are we now?	HC 546
3rd	Post-pandemic economic growth: Levelling up	HC 566
4th	Liberty Steel and the future of the UK steel Industry	HC 821
5th	Pre-legislative scrutiny: draft Downstream Oil Resilience Bill	HC 820
6th	Pre-appointment hearing of the Government's preferred candidate for Chair of the Financial Reporting Council	HC 1079
7th	Decarbonising heat in homes	HC 1038
8th	Post Office and Horizon - Compensation: interim report	HC 1129
9th	Revised (Draft) National Policy Statement for Energy	HC 1151
10th	Draft Legislative Reform (Renewal of National Radio Multiplex Licences) Order 2022	HC 1199

Session 2019–21

Number	Title	Reference
1st	My BEIS inquiry: proposals from the public	HC 612
2nd	The impact of Coronavirus on businesses and workers: interim pre-Budget report	HC 1264
3rd	Net Zero and UN Climate Summits: Scrutiny of Preparations for COP26 – interim report	HC 1265
4th	Pre-appointment hearing with the Government's preferred candidate for the Chair of the Regulatory Policy Committe	HC 1271
5th	Uyghur forced labour in Xinjiang and UK value chains	HC 1272
6th	Mineworkers' Pension Scheme	HC 1346