HOUSE OF COMMONS

ORAL EVIDENCE

TAKEN BEFORE THE

ENERGY AND CLIMATE CHANGE COMMITTEE

ENERGY PRICES, PROFITS AND POVERTY

TUESDAY 21 MAY 2013

ANDREW WRIGHT and SARAH HARRISON

RT HON EDWARD DAVEY MP, RACHAEL CRISP and GARETH BAYNHAM-HUGHES

Evidence heard in Public Questions 376 - 469

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Oral Evidence

Taken before the Energy and Climate Change Committee

on Tuesday 21 May 2013

Members present:

Mr Tim Yeo (Chair)
Dan Byles
Barry Gardiner
Ian Lavery
Dr Philip Lee
Mr Peter Lilley
Albert Owen
Christopher Pincher
John Robertson
Sir Robert Smith
Dr Alan Whitehead

Examination of Witnesses

Witnesses: **Andrew Wright**, Interim Chief Executive, Markets, Ofgem, and **Sarah Harrison**, Senior Partner, Sustainable Development, Ofgem, gave evidence.

Q376 Chair: Good afternoon. Welcome back to the Committee. Thank you for coming in. As you know, there is quite a lot of interest in this particular subject. I wonder if I could start by asking why Ofgem decided not to act on the recommendations from BDO, which you commissioned to review the consolidated segmental statements.

Andrew Wright: Yes, good afternoon. First of all, thank you very much to the Committee for the opportunity to give evidence today. It is probably worth taking a step back. Around about three or four years ago, when we were conducting the energy market probe, I think only one company published separate accounts for its retail business in the UK. That was British Gas. All the other companies either combined those accounts with other businesses in the UK or, in some cases, other businesses internationally. We thought it was important that consumers, for reasons of confidence, had sight of these accounts; so we put in place a licence condition requiring companies to publish separate segmented accounts for generation and supply, supply divided into gas, electricity, domestic and non-domestic. That is a significant improvement in transparency.

When we did the RMR, I think there were significant concerns about the comparability of these accounts, the approaches companies took to transfer pricing, and we asked BDO to help us look at ways to improve these segmented accounts. We didn't have to do this. This was something we asked them to do because we wanted to make these accounts as useful for consumers and indeed for competitors, as possible.

BDO put forward eight recommendations. We accepted, pretty much completely, five of them. We had good reasons not to accept the other three. Just to be absolutely clear, we are the decision-maker here. It is for us to decide whether or not the changes are necessary, proportionate and whether they meet our cost benefit requirements. As for the three that we did not include, one was to require the companies to publish trading profits; one was to all require all companies to publish on a common year-end; and I think the third one called for further work on transfer pricing, looking at the implications of our approach of requiring the companies to look at transfer pricing based on current wholesale prices. If you like, I can go into each of them in turn. Generally, we did not accept those three recommendations because they did not meet our criterion of meeting our cost benefit analysis, so we did not think that the cost associated with the usefulness of the information released would be in the interests of consumers.

Q377 Chair: On the question of trading activities, though, the costs would not be very great. These activities must be recorded in the books of the companies and audited. I am not quite sure why the cost point comes in there. “Not including trading activities” means we do not have a complete picture of what the companies are doing.

Andrew Wright: I think this is the one that is gaining the most attention out of these three recommendations that we didn’t accept. First and foremost, I would say that BDO have said that there is no reason to expect that the companies are not giving a fair picture of the profits in the segmented statements and there is no evidence to support the view that profits are being taken out into trading business. Having said that, because we do not necessarily have a full picture of all the relationships between the licensed businesses and the trading businesses, we accept that there is a possibility there are some missing pieces of information. If we were to require companies to publish their trading figures, there would be two ways of doing that and BDO highlighted this. They talked about a narrow approach that would require us just to look at the trading profits associated with the UK businesses and not to inquiry any further than that. BDO themselves said that would be of marginal value and potentially confusing.

The other possibility is a more in-depth and detailed approach, which would require the companies to disclose trading profits associated with businesses outside of the UK and to divide those trading profits into proprietary trading, speculative trading and trading associated with hedging and procurement. BDO themselves accepted that that information would be difficult to get hold of. There is a question of whether companies overseas are required to give us that information and it would be quite intrusive in terms of requiring companies to do a lot of analysis. We agree with that and our view is that in order for this information to be useful to customers, to provide it would be significantly intrusive. Even then, there would still be question marks about whether companies had correctly allocated between speculative and hedging and whether or not there were cross-border contracts that we did not have sight of, because we would not necessarily have the power to make companies disclose profits they were making overseas, for example. All of these questions would still arise.

To get to the bottom of it absolutely we would have to require the companies to run their businesses differently. I think the view we have always taken is that is not appropriate in a competitive market where companies should be free to organise their businesses as they see fit.

Q378 Chair: The problem is that that fails to address the fact that there is now a complete breakdown of consumer confidence in the trustworthiness and, indeed, the integrity to some extent, of these companies who have a very dominant position in the market. It is very hard for smaller companies to get into this business and, therefore, at best it is an oligopoly. All the evidence we have shows considerable consumer suspicion about the way they are treated by the Big Six in particular. You will be aware that the performance of Ofgem has come under scrutiny, particularly from the Opposition. Given that, I would have thought that it would be a pretty obvious thing to get the information. It is an incomplete picture. Of course it may be complex to get to the bottom of it, but that seems to be all the more reason for making a good effort at doing so. We have companies that are operating in all aspects of the industry as generators, retailers and traders. The scope for them to continue at least appearing to pull the wool over people's eyes remains almost unchecked.

Andrew Wright: I can understand any possibility of a gap in this information is unsatisfactory, but unless we prevent companies from organising their businesses as they see fit on an international basis, it is difficult to see how we can get to the bottom of it. The companies could combine their procurement activity and their trading activity and take all of their optimisation of their generation portfolio and their supply position through the same trading book—that is arguably an efficient way of running these businesses. Unless we prevent them doing that and require them, as indeed we do in our regulated business, to run separate ring-fenced supply businesses in the UK and prevent them from benefiting from those types of synergies, it is difficult to see how we can get to the bottom of it.

We could ask them to provide more information on a tokenistic basis, but I don't think it would shed a great deal more light on what is going on. Just to come back to it, the situation is an awful lot better than it was three years ago and you can thank Ofgem for having made those changes. BDO made it very clear that they had no evidence that the companies are doing anything untoward in terms of moving profits out of the UK regulated businesses into other businesses, certainly not in a systematic way. I think it would be wrong for us, just for the purposes of show, to make changes that impose costs on the industry.

Q379 Chair: This is not for show. There are no grounds for complacency at all. Until this Committee started taking an interest in the matter and the Trading Standards Department of Surrey County Council did, customers were being mis-sold tariffs. They were being lied to by the representatives of the companies. I am afraid Ofgem did not intervene very successfully in that area. Until very recently consumers have been confused by an extraordinary array of tariffs. Again, sometimes there is a suspicion, at least, that those tariffs have been organised in a way that is more for the benefit of the companies than for their consumers. To say this is going to be done for show is ridiculous. There are genuine concerns about the way in which these companies can continue to conceal from public view their activities and the profits they generate from different parts of those activities. It is unsatisfactory. You commissioned some experts to review all this. You then ignored half of their recommendations and it is no great surprise that consumer confidence remains very low.

Andrew Wright: I don't think we need to apologise for our achievements in this area. Certainly the Committee has done, as you know, an excellent job in holding us to account and indeed the industry to account. We identified issues around mis-selling in the probe in 2008. We put in place new licence conditions. We have enforced those licence conditions vigorously. As a result the selling on the doorstep is now a thing of the past and I think consumers have benefited from that. They no longer need to live in fear of being tricked on the doorstep by energy suppliers. I think we have acted robustly in these areas.

We have a duty to regulate these companies in a proportionate manner, not imposing unnecessary regulatory burdens on them. If our conclusion is that requiring additional information from them does not add any value to consumers then it is right for us to act in that way. You may disagree on that but the judgment we came to, partly on the evidence that BDO supplied, was that what we could reasonably do would be potentially confusing and would be of limited use. What we would need to do in order to make it useful would be difficult to realise and costly. Those were BDO's own conclusions as a part of their recommendation.

Q380 Chair: The BDO witness we heard from said he did not see the value of the checklist that you produced regarding trading activities. They recommended an independent annual audit of the consolidated segmental statements, but you have chosen to produce an independent opinion. They highlighted differences in accounting treatment across the companies. We are still lacking some information that would be quite valuable.

Andrew Wright: Firstly, the independent checklist adds value. It is worth saying there are other bits of information of value to understanding trading. The companies do publish their trading profits. We do require the companies to reconcile their segmented statements with their published accounts, so it is possible to look and see where the trading profits are. Sometimes these are published on as pan-European basis but that reflects the reality of how these companies organise their businesses. It is not as if there's a complete absence of transparency in this area.

As far as the independent audit is concerned, BDO recommended that an independent auditor provides an opinion, which is what we implemented through PKF. They provided an opinion on how the changes we had made have been implemented and any further recommendations to the proved comparability. So we did implement that. We did not commit to doing it annually. We will be doing it again until we are comfortable these accounts are settled down and there is no room for further improvement, but we did implement that. It is not the case that they asked for an audit, which would be quite an extensive and intrusive thing to do to companies that are already audited.

Q381 Chair: One thing that would not cost very much is if they all have the same year-ends. It is a one-off small cost to change from one quarter to another to have the year-end. You did not want to proceed even with that recommendation.

Andrew Wright: Once again, I respectfully disagree. First of all, it is of limited value. The year-end of Scottish and Southern Energy and the other five companies is just three months apart, so the numbers are quite comparable. There may well be differences over that three months, but it is not going to be huge.

Secondly, if you are going to require Scottish and Southern to change its year-end, you are going to require it to release into the financial markets information that it does not currently provide or you are going to require it to change its financial reporting year-end with all the implications and costs of that, and you may end up having to delay the release of information from all other companies because you have to wait until that financial information is released into the market and properly audited, which SSE does not do until 31 March.

Finally, although the costs overall may not be large, there are significant costs on one party. All of that needs to be borne in mind against the limited improvement in transparency that would provide. I do not think there is a great deal been lost by SSE having a different year-end when you look at the statements that have been published so far.

Q382 Sir Robert Smith: I had better remind the Committee of my entry in the Register of Members' Interests to do with oil and gas, in particular a shareholding in Shell. The Big Six have raised concerns about the supply market indicator and your assumptions about the amount of fuel they sell and, therefore, it may be exaggerating their profits. They also suggest your model has an oversimplified hedging strategy. How do you respond to that concern?

Andrew Wright: The supply market indicator, once again, is an initiative from us to improve transparency in this market. Had we not taken this initiative there would be no ongoing view of the forward looking profitability of these companies. It enables consumers, politicians and the media to have a dialogue about whether or not price increases were justified, whether price increases are in the offing. It is used by other agencies, for example, the Bank of England, to look at inflation forecasts. So it is a useful addition to the transparency in the market. You cannot expect us, in the position we are in, to be able to make accurate forecasts of the company's profitability looking 12 months ahead. The companies themselves are not even able to do that because unexpected things happen. For example, you had Centrica in here earlier talking about the increased demand over the April period, which you can't necessarily predict. Then there is the higher cost of meeting the CERT and CESP obligations. These are all changes that you can't predict. So inevitably, because we do not have a crystal ball, there are going to be differences between our supply market indicators.

Also, because we want to make what we are doing transparent, we have a published methodology which we allow other people to replicate. We rely on public domain information and as a result, there are some simplifying assumptions in that. I think that makes it practical to update the supply market indicator regularly. As a result of that, we look at the profitability of a typical customer, with typical consumption, on standard dual fuel tariffs. Now, that is not the same as giving a forecast of the profitability of the companies.

The companies point out the differences; typical consumption is not necessarily the same as average consumption. They have discounted tariffs that we don't take into account. We use a simplified hedging strategy, an 18-month hedging strategy because we do not know the companies' hedging strategies. They do not disclose it and we have no way of knowing. So inevitably there are going to be differences, but does that mean this is not useful? I don't think it does. I think this is a useful indicator that provides a useful indication.

The particular accusation on consumption I think we accept. We change our definition of a typical customer; we last did it in 2009 and there is a lot of evidence that since then consumption levels, particularly in gas, have fallen considerably and we need to take that into account. We have just initiated a review of consumption levels, both for the use in the supply market indicator and the average consumption levels that are tended to be used in the media and elsewhere when quoting the size of a typical bill. This work is underway now and we will update the consumption assumptions, which should make the supply market indicator more reflective of a typical customer.

Q383 Sir Robert Smith: In 2010 when the segmented accounts suggested an average profit margin on electricity of 0.3% supply, the supply market indicator suggested a margin around 6%.

Andrew Wright: First of all, we have done the exercise of calibrating or checking our supply market indicator against actual results and it performs fairly well. As I say, there are a couple of adjustments you have to make; the most obvious one being that we do not take account of discounted tariffs in the supply market indicator. We are looking at the profitability of a typical dual fuel customer on standard tariffs.

Sir Robert Smith: CSS is coming up at 0.3% and the SMI at 6%.

Andrew Wright: As I say, you need to compare like for like. Hopefully, I can provide the Committee with calibration work that we have done on this, if I can dig it out. We have done it internally as a check to see whether or not there is broad consistency between the supply market indicator and the published numbers. We look at it line by line in terms of what the cost of fuel is and so on. We see where the differences are that we understand. They are not identical because they are looking at different things, but we were broadly comfortable that the two were consistent. I do not recognise those exact numbers but, nonetheless, we have gone through that exercise and we satisfied ourselves that there was nothing suggesting that the methodology we were using in the supply market indicator was grossly wrong, recognising that it is a simplification for good reasons.

Q384 Sir Robert Smith: In answer to the Chair earlier you were saying how you would not want to tell them how to run their business, but obviously when it comes to the retail tariffs you are going to be telling them quite a lot about how to run their business. What restrains you from feeling you should be telling them?

Andrew Wright: Our responsibility as an economic regulator is to ensure the market works effectively. Where it is necessary to require the companies to behave in a certain way in order to get a more effective market, either because we feel the consumers are finding it difficult to engage in a complex market or that the companies are providing misleading information, for example, then it is appropriate to put in place licence conditions to deal with that. I do not see any inconsistency. I think what we are talking about is that in a competitive market in general you want companies to compete for different suppliers, organise themselves and organise the way they run their business as they best see fit in order to compete in the market. That is what we want to achieve.

Q385 Sir Robert Smith: I suppose the bottom line is that, if it is a working market, if the company is more efficient, then the consumer should get a share of that.

Andrew Wright: If it is a working market then absolutely, but, similarly, if a company is more efficient and has a competitive advantage over other companies you will also expect them to make more profit. That is also a part of the incentives of getting companies to compete in the market.

Q386 Sir Robert Smith: You mentioned quite a lot of them have overseas markets. Is there perhaps a need for international co-operation on creating some more transparency in the trading figures?

Andrew Wright: Possibly. I think that is an interesting question. Certainly in the wholesale markets there has been a lot of Europe-wide initiatives on transparency; for example, about the amount of gas in gas storage and about flows in gas pipelines and REMIT, the market abuse directive. So there have been a lot of initiatives to improve transparency, particularly in the wholesale market. It is an interesting question about whether or not that could be extended to retail markets and certainly one worth thinking about. But generally, for good reasons I think, the focus of European Commission activity has tended to be on wholesale markets.

Q387 Barry Gardiner: Back to vertical integration, surely the problem here is that it allows, as a business model, companies to cross-subsidise different activities and to distort the market. Until there is a real attack on the ability of the companies to adopt a radically-integrated model then all the problems of transparency and trust are not going to go away, are they?

Andrew Wright: No. I think you are right. Vertical integration could have an adverse effect on competition if it allows vertically integrated players to foreclose the market. Generally, in competition terms, that would need to be some form of collusion, otherwise competitors would gain market share at the expense of each other or dominance associated with that. We have focused on trying to generate sufficient liquidity to enable new entrants, both independent generators and independent suppliers, to compete on level terms with the vertically integrated companies. That is where we are focused.

Once again, we think that is a proportionate intervention given the scale of the issue and I think we have had considerable success in that. There is significantly greater liquidity on the short-term markets, on the near-term markets, and there is lots of evidence the smaller suppliers are now finding it easier to get hold of the products that they need, and we are seeing significant growth in the market share of small suppliers, albeit from a very low base. So there are signs of improvement but we are not satisfied with that. We are proposing to put in place obligations on companies that will have the effect of increasing liquidity, particularly along the forward curve where I think the progress has been disappointing.

Q388 Barry Gardiner: Mr Wright, you say that you are trying to get competition into the market and smaller companies in to break things up. The other day I watched as a magpie had taken an egg from the nest of a goldfinch. I watched the goldfinch for about 150 metres chase that magpie. Right? The magpie still obtained the egg. The idea that small companies are going to be able to come into the market here and take away from the big companies in the manner that you indicate you believe they could, is very unlikely. They are so small by comparison and their power-to-weight ratio is so poor by comparison that I cannot believe that you believe that that is a sensible short-term solution.

Andrew Wright: I am not being naïve here. I think it would be wrong to say that smaller suppliers are yet at a stage where they are maintaining a consistent and credible threat to the Big Six. Having said that, they are making considerable gains. Some of them are now getting to the scale where I think, in terms of the customers—

Barry Gardiner: They were bought out by the Big Six. You know what is going to happen with one of them in the near future. They try to grow themselves to the size but they then get bought out the moment they become a threat.

Andrew Wright: If you look at the participation of the small suppliers in changes of supplier, albeit that leaves the big lump of disengaged inactive customers where they are, but if you look at the active part of the market, the small suppliers are more significant than their market shares would suggest. Certainly concerns that some of the big companies are raising about the small suppliers not being subject to some of the environmental obligations suggest to me that they are starting to feel the pain from competition from small suppliers.

I don't think we are there yet. I am not at all satisfied that we have sufficient competition from small suppliers. There is also the independent generation sector that has the prospect of undermining the vertical integration in the industry as well. You should not just focus on suppliers.

Q389 Barry Gardiner: What about introducing a self-supply restriction? E.ON have recommended clear and consistent prohibition of cross-subsidy. Now, of course, at the moment it is very difficult to know whether that is taking place or not between generation supply activities. Wouldn't those sorts of measures help to improve transparency?

Andrew Wright: We are going to be putting forward our proposals on liquidity in the next couple of months, certainly before everyone goes away on their summer holidays, and I will be happy to come back and answer questions on them. We have already set out the shape of that, which we have talked about as secure and promote; in other words, to put in place obligations to secure the gains that have been already made and to promote further liquidity where we think it is necessary, which is predominantly along the curve.

The important thing is that people who want to trade are able to trade at fair prices. A self-supply restriction has many of the same challenges as a mandated auction or a mandated market maker, which is, first of all, how you enforce it. The self-supply restriction is only part of the issue. You want to make sure that the rest of the power is supplied into the market. In doing that you need to make sure that it is done in a way that benefits people who want to trade. You have the same issues about preventing companies from trading with each other, making sure that the trades are genuine, and I think there are real challenges with a self-supply restriction.

I am not saying it is any better or worse than the mandated auction or other approaches, but many of the same challenges exist. I don't think it is a panacea. We will be coming up with what we think is the best and most appropriate solution to this issue, given the progress already made in the short-term market.

Q390 Ian Lavery: Just continuing on the theme of liquidity and competition in the energy markets, you have been working on improving wholesale liquidity, particularly in the electricity market, since you identified the problem in 2008 and further measures will be introduced as part of the Energy Bill. Can you briefly explain what you have achieved so far and what impact the Energy Bill provisions will have?

Andrew Wright: Yes, gladly. First of all, you are right in saying this was an issue first identified in 2008 as part of the energy supply probe. I suppose we have been using a mixture of carrot and stick. We have been trying to encourage industry initiatives that were already in train in 2008 to deliver and, to some extent, the reason we have taken a long time in getting to where we are is that we wanted to give industry the opportunity to respond to the challenge. In part they have done that.

There have been significant increases in the volumes traded on the day-ahead market, for example. The day-ahead auction is now well established and the short-term market is a critical part of the market. It is not only useful in its own right but potentially encourages other people to come into the market to trade on longer-term products as well. On top of that the companies now treat small suppliers far better than they used to. We used to have a litany of complaints about the credit terms, the clip sizes and a whole bunch of barriers about why small suppliers were not able to get hold of the electricity and gas they needed from the Big Six.

I can't say there are no complaints about this anymore or they are completely happy, but it is a significantly improved situation. You heard recently about Scottish and Southern, for example, providing collateral-free trading opportunities for small suppliers up to a certain size. That is just one example. There are a number of others around the industry. We have made significant progress and we have been developing our proposals and I think we have now come to the end of that process. We can no longer wait for the industry to solve the issue by itself and we have to plug the remaining gap that exists, but I think, in doing that, it is far better that the industry steps up and solves this problem itself rather than responding reluctantly to rules that we put in place.

Q391 Ian Lavery: You mentioned Scottish and Southern. They suggested that a division of a trading day into 48 half-hour chunks meant that liquidity in the electricity market was very granular. Is granularity an issue and, if it is an issue, why is it an issue?

Andrew Wright: Granularity is a fact of life and, if anything, the more granular it is then the more cost reflective and the more efficient the market is likely to be. I think we would not want to remove the granularity of the market in the near term because it means that generators can respond to price signals in real time in an effective and efficient way. Electricity is a product and the price and value varies quite sharply over relatively short periods of time. That does make it fairly difficult as far as liquidity and trading is concerned. Having said that, as I say, the day-ahead auctions, which are in half-hour chunks, are reasonably liquid and it is not where we see the problem in the market today. I do not think granularity is an issue and, if anything, it would be nice to see even more granularity because that provides a greater role of the market and reduces the role of the system operator.

Q392 Ian Lavery: If you think there should be more granularity, do you think in any way, shape or form it can be improved?

Andrew Wright: Certainly. We are undergoing reform of the balancing mechanism and cash-out at the moment, the so-called significant code review of the balancing mechanism, and we are looking to improve that balancing mechanism in a number of ways. We are not looking to change the half-hourly settlement period, and partly for some of the reasons you talked about in that liquidity may be not enough to justify it. We are not looking to change that, but we are looking to change the way prices are formed, to make sure security of supply is properly reflected, potentially moving from a dual cash-out to a single cash-out. Those things are not directly affecting liquidity but improving the operation of the balancing mechanism will help liquidity. It will give people increased confidence in the market.

Q393 Dr Whitehead: If you are a very large company trading you may well, as now appears to be the case, buy way down the curve, well in excess of what you know that you are eventually going to have to produce for the purposes of balancing, and you will then buy and sell, repeatedly, some of that in order to balance off what you have when you get to day-ahead and closure. You may then take on board small companies in the process of buying and selling down the line and, indeed, you may take small companies under your wing and offer them facilities to trade as if they were you. Now, this is a rather different process to trading with yourself but, nevertheless, comes to the same result, which is the effective making of the market in favour of particular very large suppliers and, effectively, the capturing of small companies so that the terms they are on are no better ever than whatever it is you are offering them as part of that wider process. Is that something that concerns you or is that a development that you think is okay as far as liquidity is concerned?

Andrew Wright: You may need to clarify what you mean about the relationship with the smaller companies. As far as the practice of companies buying large blocks of power, base load for example, a long way out and then refining and sculpting their positions as they get closer to the time, then that is exactly how I would expect the market to work and that sounds to me like a description of an effective market. As they sculpt their positions they will be trading in different times of the day, different days of the week, different half-hour blocks and, in doing that, I would guess that would then enable them to make available to smaller suppliers the shaped and sculpted products that they may well need. If that is what is happening, I would see that as an efficient and well-functioning market. I am not sure I have any particular concerns unless I am missing your point, which I may be.

Q394 Dr Whitehead: It is rather like if you are supplying cucumbers to Tesco’s and Tesco’s take your entire supply of cucumbers year one and year two. Having given your entire supply of cucumbers to Tesco, they will then come back with an over-rider to say that you must supply your cucumbers to us, Tesco’s, at 10% less in year two, at which point you have no option but to supply your cucumbers to Tesco’s because you have gone under their wing as far as your entire supply is concerned.

Andrew Wright: This is for generating or supplier?

Dr Whitehead: If you are a small company seeking to purchase and you went under the wing of a large company, at some stage in that process of sculpting are you not effectively—

Andrew Wright: You are effectively talking about companies, I suppose, cornering the market by buying up all the power a long time ahead and then dropping the terms of it. That would—

Dr Whitehead: That would come under the sculpting. You are then captured, are you?

Andrew Wright: Yes, that would be a concern. To some extent, that would be foreclosing the market against smaller suppliers and new entrants. I personally have not seen a great deal of evidence or, indeed, any evidence of that type of behaviour. We know the companies buy in large chunks of power a long way out because that is the nature of the market. As you get further out you lose the granularity, so you tend to be only able to trade, for example, in base-load power or maybe peak power but not in the discrete chunks in times of day. You would expect that, but I have not heard those accusations. Certainly if people are making those sorts of accusations, they should come to us and we will listen to them.

Q395 Dr Whitehead: You have not looked at, say, trading well down the curve; the extent to which that relates reasonably to the amount of purchases that may be necessary in order to deal with obligations or whether there is a wide margin between them?

Andrew Wright: No, we haven't, only in that generally the trading positions the companies take are confidential. We will have to make specific requests to get that information, which we could not do unless we had suspicion that something was awry. Apart from the general concerns about vertical integration and the effect of that, which we have already spoken about, we have not seen any more general evidence that companies are foreclosing the market by purchasing power a long way in advance, in excess of their needs. If anyone has such evidence they should bring it to us.

Q396 Sir Robert Smith: On vertical integration, how much of it is a natural product for investors wanting to be on both sides of the risk so that if generators are doing well, suppliers do badly and if suppliers are doing well it is probably generators who are doing badly and therefore, while it is not quite so exciting, it is more secure?

Andrew Wright: That may well be a significant part of it. I do not think that is particularly surprising. You could expect companies to look for efficient ways of managing their exposure to the market and having a vertically integrated business is one way of doing that. Arguably that is an efficient way of running your business. It reduces transaction costs and reduces the risk premium and could lead to a better deal for customers, provided you can be satisfied that there—

Sir Robert Smith: Doesn't it then make it very difficult for people to operate who are not vertically integrated?

Andrew Wright: Yes. There may well be competitive advantages to being vertically integrated and some of those may be legitimate. Some of them might be the products of the balancing mechanism and we are looking at reforms of the balancing mechanism to see whether that can be improved. I suppose there is a risk that that could be anti-competitive, but, as I say, we are looking to improve liquidity to try to ensure that new entrants can compete on a level playing field. Nonetheless, once again it comes back to the same view that if companies want to organise their businesses in an efficient way we should not be discouraging them from doing that.

Q397 John Robertson: You mentioned SSE a while ago, about the free credit to small suppliers. Has Ofgem considered requiring or incentivising the Big Six companies to do this?

Andrew Wright: We have considered whether there is anything that we ought to put on suppliers by way of an obligation to provide free or cheap collateral. We took the view that it was not appropriate, that collateral is a normal part of doing business and that would, in effect, be requiring these companies to cross-subsidise. Having said that, we welcome this initiative and we would encourage others to look at this and other initiatives that may make it easier for new entrants to come into the business, but it is probably right that companies do that themselves.

Q398 John Robertson: I know what you are saying, that it is a good idea to do these things. To be honest, they could all do a lot more, but you as a regulator should be taking some kind of lead in this. You should be saying, "Okay, this is a good idea and SSE have thought of it. So let's go to Scottish Power and tell them to go out and do this. We want you to do this". Why not?

Andrew Wright: We have. Throughout the long time that we have been trying to encourage greater liquidity in the market, part of that is getting people to trade more, particularly in the short-term market, but part of that is ensuring companies treat small suppliers fairly. Partly through stick and partly through carrot, we have been doing a lot of encouraging. A lot of the improvements that you have seen across the industry are down to the pressure that we have been applying to the industry to treat small suppliers better. We do not think it is enough, by the way, and that is why we are likely to bring forward obligations that will reinforce and strengthen that.

Q399 John Robertson: I am trying to tell you that, "you are not doing enough" is an understatement. We have here the *Independent* today where it says, "SSE prepares to announce a 30% jump in profits in its division by supplying gas and electricity." This goes back to December 2010, when they put the prices up for gas by 9.4%. In September 2011, gas went up 18% and electricity 11%. They did bring it down in March 2012 by 4.5% but, lo and behold, we get to October, 9% gas rise and 9% electricity rise. They are having a laugh, are they not? What are you doing about that? This is ridiculous.

Andrew Wright: It is worth taking a step back. We are the economic regulator responsible for ensuring that markets work effectively. Companies set prices and they—

John Robertson: You are the regulator, regulate.

Andrew Wright: No. The framework of competitive markets has been established by Government since the early days after privatisation. For more than 20 years this is the framework in which we operate. I have not heard anything from the current Government to suggest that has changed. Indeed, it is set out in European law that there should be competitive—

John Robertson: We will talk about European law in a minute. You said things were better than three years ago. I have just given you a lot of figures that say it is not.

Sarah Harrison: If I could come in here, you are absolutely right; in a competitive market, which is the framework in which we are operating, there is a place for regulation. There is regulation, the first part of which we announced the introduction of last week, to put in place new standards of conduct to protect customers.

John Robertson: Last week? Every single one of these companies has been putting their percentage up within months of each other for all those years and you are telling me things are better. How are they better?

Sarah Harrison: The reform package will reduce the number of tariffs, so that if companies are making profits and putting up their prices, that will not be done on the basis of bamboozling and confusing customers. We have been on to this. We have a package of reforms coming in and I think the other test of this is not just about waiting for the regulation. It is how the industry is reacting. We have seen companies, like SSE and others, coming forward and saying, "Yes, we got it wrong. We need to do things differently". We are seeing the effects of some of that, but that does not meant to say there is not a place for regulation.

Q400 John Robertson: What effects? A 4.5% rise over three years and, according to newspaper reports today, tomorrow they will announce they have increased their profits 30%. They have upped the prices every year—30% profit and they up their prices by 9%. That is outrageous. Come on, that is outrageous.

Andrew Wright: In a competitive market it is for the companies to set their prices. We are doing everything we can to try and make this market as effective as possible, including some of the most dramatic interventions or the most dramatic interventions since liberalisation to make it easier for consumers to engage in the market and hold companies to account. The level of profits the companies are making—

John Robertson: Who is holding the companies to account here, by the way? I must have missed something. If it was not this Committee, who brings them to account? I must have missed you doing something.

Sarah Harrison: We share your concern. There is no question that more needs to be done and what Ofgem is putting in place in the retail market is doing that.

John Robertson: So are the—

Sarah Harrison: But it is also about making sure that when the companies foul up, and they have done, that we are there to take the action and to put in place the financial penalties and to make sure their action is drawn to wider public attention. The impact on these businesses from a reputational point of view is significant when the regulator intervenes and, quite rightly, we see those companies standing up and accepting when they get things wrong.

Q401 John Robertson: Hang on a second, these are the same companies who have talked about 2% and 3% profits on the retail side and yet on the generating side they are making 17%, 18%, 19%, 20% profit. You said earlier on, "Forcing companies to publish figures is difficult and we will not look at it". You are the regulator.

Andrew Wright: No, we—

John Robertson: Hold on a second. You talked about Europe as well. Customer Focus drew attention to powers under the EU Electricity and Gas Directives that Ofgem could use to force suppliers to disclose the relevant data. Why are you not using these bodies and these powers?

Andrew Wright: All right, let us—

John Robertson: Is that not a help? I have to tell you, I still have a real problem. When those companies gave the dividends out to the shareholders, I asked them whether they included the generation and the retail profits. They said yes, they put them out together. Well, if they can put them out together and give dividends to the shareholders in the United Kingdom we should be able to find out exactly how much money is involved.

Andrew Wright: All right, let me go back to the first of your comments. We have done more than any comparable regulator to increase the transparency of these companies and to make it clear where they are making money, in the generation business, the supply business, in a consistent and fair manner right the way across the whole Big Six, whether they are internationally owned or UK owned. We are having this discussion today partly because we have made that information available. I think we have a strong commitment to greater transparency in this market.

It is for the companies to explain their profits and to explain their prices. Our job is to make the competitive market as effective as possible and we are not apologists for this market. We are on record, through the retail market review and the probe, as saying the competition is not as effective as we would like and we are putting in place radical measures to simplify the market—once again, probably more radical than any comparable sector—to try to make that work more effectively. If you wanted, there could be a legitimate public debate about whether the competition is the right way to manager this sector, but this has been UK policy—

Q402 John Robertson: Hang on a second, to get the gist of it, you have to get people come and give us the information. We are not getting that. You did say you had done an investigation into the alleged manipulation of gas prices and you reported that September last year. Eight months down the line, what has happened?

Andrew Wright: We have been working hard on this investigation, working closely with the FCA.

John Robertson: Eight months.

Andrew Wright: The investigation is still underway and it is our policy not to comment on the progress of current investigations that could lead to enforcement.

John Robertson: Are we likely to get something this year?

Andrew Wright: I am not going to comment on how much longer it is going to take.

John Robertson: This is getting worse.

Andrew Wright: No, it is what we have to do. It is appropriate that we do not comment on ongoing investigations that could lead to enforcement. That is important in enabling us to do our job properly.

Sarah Harrison: It is important for the simple reason that at the moment when you are conducting investigations, you want to create a climate that allows people to come forward with information. By being open and transparent, as attractive as it might be, you might compromise your ability to be able to do that. So there is a reason behind this. That is not to say, though, that we are not obviously committed to progressing this investigation and I can assure you that Ofgem is putting the priorities and resources in place to do that, but also in this case working very closely with the Financial Conduct Authority which is a key other regulator in respect of these market manipulation allegations. We are also doing so in the context of looking forward to receiving new powers that will be given to us by Government as part of the implementation of the directives designed to tackle the market manipulation, abuse and insider trading that, if you like, are the subject of some of the allegations that you have referred to.

Q403 John Robertson: Part of the problem is—

Mr Lilley: So you are stalling—

John Robertson: Hang on a second, Peter. Let me finish and then I will let you in.

Part of the problem is how long it takes to get your judgment and while we wait people are having to pay the increased prices and are wondering whether they can actually pay their bills. We know that people do die of hypothermia in winter and we have had a rather cold spell. If we do not allow these people to get as cheap as possible fuel and energy then we have not done our job. You take too long to do it. You are effectively closing yourselves down. The Opposition, which I am part of, have already said they will close you down. So my question to finish off is: can you afford not to have increased powers and to use these powers to bring these companies to boot?

Sarah Harrison: Absolutely we need the right powers. To be clear, when we have found ourselves in a situation where we don’t think we have the right powers we have been the first to seek them. Two examples: the powers to be able to award financial redress to customers when, for example, they have been mis-sold to, is a gap in our armoury. We are very pleased that the Energy Bill is going to bring those forward.

Q404 John Robertson: Are you using the EU as well, because you have not done that? Will you go to the EU and use the EU REMIT to try and bring these companies to boot?

Sarah Harrison: This is in relation to wholesale market transparency and pricing?

Andrew Wright: Yes, exactly. First and foremost—

John Robertson: You are a bit reticent to do it?

Andrew Wright: No. There are two things. First of all, the Government is in the process of putting in place the powers that we need to investigate and enforce under REMIT, which will enable us to get access to the information that we need to be able to do that. On top of that, the European regulatory agency, ACER, will be routinely collecting all the trading data across the whole of Europe, which will make a huge difference to our ability both to monitor and to enforce and indeed speed up our enforcement because we will have access to that data immediately without having to go to market participants to ask for it.

John Robertson: Sorry, Peter.

Q405 Mr Lilley: No, I just wanted to reinforce your point because it seemed Ms Harrison was saying that you are deliberating stalling until you get more powers. Did I correctly interpret that?

Sarah Harrison: No.

Mr Lilley: You gave that as a reason for taking a long time, that you were going to get—

Sarah Harrison: No.

Mr Lilley: So it is not a reason?

Sarah Harrison: No, I think it is important to know that investigations like this take time and—

Mr Lilley: Why did you mention the fact that you were going to get more powers in future?

Sarah Harrison: Because the REMIT regulations, the directive, has been established to give national regulatory authorities like Ofgem and others in other member states the powers to be able to—

Mr Lilley: So it is not a reason that it is taking more time?

Sarah Harrison: But the point is—

Mr Lilley: I am just trying to establish that fact. Do not bother to answer any other questions that I haven't asked.

Sarah Harrison: No, of course. I am telling you—

Andrew Wright: The absence of that power means it does take longer to get hold of the information that we would otherwise be able to get in a straightforward manner. This is potentially a long and complex investigation and we may not have reached a conclusion by now in any case, but that is a fact of life at the moment.

Q406 Mr Lilley: Just pursuing the point of my colleague, Mr Robertson. He is of the opinion that this is not a competitive market and you are saying, "Oh, we are assuming it is a competitive market", in which case it is not quite clear why you are carrying out an investigation. Surely it is supposed to be competitive. You are looking to see whether it is operating as a competitive market or as an oligopolistic one. The symptoms of being an oligopolistic market and of oligopolistic power being exploited would be abnormally high returns on capital and abnormally high profits. Now, have you established whether or not they exist? It can't take eight months.

Andrew Wright: That is two questions. First of all, it is quite possible to get individual instances of market manipulation and insider trading and market abuse in competitive markets. That is a separate issue. Secondly, we are not apologists for the retail market. We have been clear that we think this market is not competitive enough.

Mr Lilley: Sorry, I just asked a simple question. Have you tried to establish whether there are excess profits?

Andrew Wright: In retail or in wholesale or—

Mr Lilley: In this market.

Andrew Wright: In the retail market we have done a lot of work looking at the competitiveness of the market, including looking at profits and whether or not companies raise their prices more quickly than they drop them, whether they are making excess profits, comparing that against other sectors. We have done a lot of that sort of work, yes, and that is all in the public domain.

Q407 Dr Lee: If they are buying and selling to themselves they can make the profits less in retail and more in the generation sector. You have to look at the total profit across the entire company. You can't just do it in retail.

Andrew Wright: I do not want to be complacent enough to give any of the markets we look at an absolute clean bill of health. In the generation market, the power stations that are at the margin, the gas-fired power stations, appear not to be making any money at all at the moment. Companies are closing those stations and mothballing them because they are making insufficient profits. That does not look to me like a market where the competition is not sufficient. Having said that, we continue to monitor the market. We look for individual instances of market abuse and we look for evidence of anti-competitive behaviour and problems with the market. We do that all the time.

Chair: We have the Secretary of State outside, so we will just finish up with one final question.

Q408 Dr Whitehead: When you did your retail market review in October last, you proposed a pilot scheme for vulnerable and sticky customers and you said that you would set up a working group and undertake pilots, possibly. How is that coming along?

Andrew Wright: Yes, we have started that. We are focusing very much on getting the statutory consultations out on the retail market review at the moment, but we have already sent out the initial letters to establish that process. Do you have a timeframe, Sarah?

Sarah Harrison: Yes. The workshops met for the first time and it is worth bearing in mind that what this is about is trying to look, as you say, at those particularly sticky customers who are the least engaged and who are going to find it more difficult to engage in respect of the reforms that Ofgem is putting in place.

One of the proposals on the table is something we have called the Market Cheapest Deal, which is a proposal whereby suppliers would have to put on their bills information about the cheapest deal available in the market, even if it were not from that particular supplier. The workshops are about trying to work through the mechanics of that as an option, but also to look at, if you like, what sits behind that idea. That is about trying to provide an "at a glance" solution to make it easier for customers who struggle to engage in the market to be able to see very readily the best deal in the market.

I think it is interesting to note that, despite some of the initial opposition, let us call it, from the industry to that idea, nonetheless we have seen evidence that some suppliers are beginning to move into that space. It is interesting to note that EDF Energy's Blue Price Promise commits to notify its customers of any supplier deal that is more than £1 cheaper a week than its own deal and not put in place any termination fees if the customer then wants to switch to that deal. I think this is an important area of the concept of never knowingly being undersold that we will want to explore now that our working group is up and running not just with the industry but, critically, also with customer groups who have some very good thinking and ideas about this.

Q409 Dr Whitehead: You also said to us a little while ago that you thought increased data-sharing would help identify affordable warmth group households, for example, under ECO. What steps are you taking to advance data-sharing among companies? Are you considering an obligation on data-sharing or similar?

Sarah Harrison: Two things I suppose. In terms of sharing information, for example, about customers who might be in receipt of certain benefits, we are not in the lead on that but what we have observed, in particular through the conclusion to the CERT and CESP schemes, was that suppliers and generators were able to match and verify their information against DWP data so that they could be assured that the measures were being installed in the households for whom they were intended. Of course, the value of having access to that is it reduces the search costs associated with targeting these measures. We are supportive of working with Government to the extent we can to see further progress in that respect.

There are other ways that suppliers in particular and distribution companies can act here. Many suppliers and distribution companies maintain priority service registers, which gather information about some of their most vulnerable customers who have particular needs. One of the strands of our new consumer vulnerability strategy is going to look at ways in which we can improve the awareness of the public service registers and seeing ways in which suppliers and distribution network companies can make better use of that data, not only to target their own services and support to those customers but also potentially to share that information with other providers and organisations, particularly in the local communities, who might also be able to provide additional help.

Chair: Thank you very much. That has been very useful for us.

Examination of Witnesses

Witnesses: **Rt Hon Edward Davey MP**, Secretary of State for Energy and Climate Change, **Rachael Crisp**, Head of Energy Markets and Consumers, DECC, and **Gareth Baynham-Hughes**, Head of Fuel Poverty, DECC, gave evidence.

Q410 Chair: Good afternoon. Welcome back to the Committee. Delighted to see you as ever, but we are disappointed not to see the Minister of State.

Mr Davey: I do not think there is any particular reason why he should not be here, but I am not quite sure where he is today. I am sorry if I am not good enough for you.

Chair: No, I was not casting any aspersions on you at all. I am sure you will answer all the questions we have very fully, but it does seem to reinforce the part-time nature of the Minister's role if, on his first scheduled appearance at the Select Committee, we get a last-minute message saying he is not coming.

Mr Davey: I did not realise it was last-minute. It has been in my diary for some time. I have to say, I think Michael is already making a big contribution to the Department and I am sure you will see that when you do meet him. I think the links he is able to bring between DECC and BIS are a positive thing. As he has already remarked on a number of occasions, the companies he is seeing in his role as Energy Minister are many of the ones he was seeing when he was BIS Minister, so that is getting a very good message out.

Chair: So, the fact we had a full-time Minister of State for the previous two and three-quarter years was an unnecessary waste of ministerial time.

Mr Davey: No, I would not say that. I think a huge amount of progress has been made in that period, but Michael is a Minister with exceptional talent.

Q411 Chair: Right, okay. We are on our third Minister of State in about nine months. You have lost two of your most senior officials in the last few weeks. Ben Moxham has left No. 10. We noted that the Bill took four months to appear after we had commented in detail on the draft. We note that a further four months has elapsed from the completion of the Bill's Committee stage before it returns on Report next month. Would you say this is a sign of a Department that is functioning smoothly?

Mr Davey: If you don't mind my saying so, Chairman, if those same facts were described in a slightly different way, you would reach a different conclusion. For example, the Energy Bill and EMR is on target, if you said that, which is true. It is on schedule, as we originally said it would be. We have kept to the timetables, as we originally said we would.

Moreover, the fact that the Energy Bill left Committee and is only going to come back to the House after the recess is because it was always a carry-over Bill. You have to do the final stage, as you know, in the Commons in the following session of Parliament to meet the carry-over procedure rules. It might have been taken this week, but there was a desire to have the Marriage (Same Sex Couples) Bill debated. After the recess, it is the next Bill scheduled to complete its final stage in the Commons. It seems to me the legislation is very much on track as always planned.

As for officials, I have to say I cannot speak for Mr Moxham at No. 10. I know there is already a replacement there, but for my own officials, the particular individuals, movement is a normal part of their career development. There is nothing unusual about that. Senior officials come and go. With our new Permanent Secretary, Stephen Lovegrove, I think we are in an extremely strong position and the morale in the Department is very high.

Q412 Chair: When you meet people from the energy industry, do they not sometimes say to you that they are concerned that some matters, including the Bill, are progressing more slowly than they would like from the point of view of making new investments?

Mr Davey: The industry and investors always say they want the next bit of the picture. I think the question to which we should be held account is whether or not we are giving that information at the time we said we would. The issues now when you talk to investors are not the issues that you were raising with me when I first came before you because they have all been dealt with. The issues now are things like the draft strike prices for the contracts for difference, which we said we would publish in July and we are on schedule to publish them. That obviously is a critical part of the next stage. Most of the investors I talk to are now focusing their minds on that.

Q413 Chair: Why do you think so little investment is taking place in new generating capacity?

Mr Davey: There was inevitably going to be a bit of a hiatus as we changed the legal framework. While we got the renewable obligation certificates and banding review done last July, which has helped and we have seen some investment as a result of getting that decision, clearly those investors who are looking to the first contracts for difference when the new obligation band certificate system closes are waiting for the draft strike prices, as I have mentioned.

I would say that we have structured the process so that there are go-early options for investors. They do not have to wait until the Royal Assent. That is why, when we set the draft strike prices in July, companies who want the final investment decision enabling FiT CfDs, the core investment contracts, in the Bill will be able to start talking to the Department to sign those and in March we published the criteria that we would use to judge those. I think we are going to see the investment chain really get going at this juncture, which is frankly when one would have expected it to start getting going.

Q414 Chair: One could summarise the current situation as saying nuclear negotiations stalled; investment in coal obviously unlikely until we have CCS; the gas investors are all holding back to see if they can make more money out of the capacity market; and a lot of the renewables are waiting for the strike prices. At a time when there is increasing concern about the overall capacity available in the remainder of this decade, it is a bit worrying that there is so little new investment happening, isn’t it?

Mr Davey: You could describe it that way but I think that would be inaccurate and unfair. First of all, we are seeing investment under the renewable negotiation. We are seeing at least one gas plant being built in Carrington. The nuclear negotiations are not stalled. They are intense and lively and, I certainly believe, near a conclusion. This will be a remarkable thing because no previous Government for a long time has arrived at that position. Rather than the negative spin you put on it or interpretation you put on it, I think the reverse is the case. With CCS we are at the preferred bidder stage with both the Scottish Aberdeenshire project and the Yorkshire project to go ahead with probably the biggest CCS projects in Europe. Again, progress. I am not apologising for keeping to my timetable for draft CfD prices.

Q415 Chair: The spin I was putting on it was not negative so much as concerned that, at a time when we are anxious about the availability of supply, the Government's position seemed a bit complacent about not really worrying about the fact that very little is actually happening.

Mr Davey: Can I say we are absolutely not complacent. We are engaging with Ofgem and engaging with National Grid. We are looking at the projections and I think you will see in some of the announcements we will make in due course that we have a very clear strategy, on which we have been consulting and working with industry and across Government.

Q416 Chair: We have arrived at a situation now where the Treasury seems to be leading on the nuclear negotiations.

Mr Davey: That is not true.

Chair: The gas strategy was announced by the Chancellor of the Exchequer. The changes in tariff policy regulations were announced by the Prime Minister at PMQs on a day that DECC had not been informed about. Does DECC have any role in energy policy these days?

Mr Davey: I am delighted that so many people across Government are so helpful, but I do think, again, the way you characterise things is slightly inaccurate. First of all, we are in charge of the nuclear negotiations. We are working closely with the Treasury, as you would expect. Would you seriously think we should not work with the Treasury on something as important as this? But we are very much leading them, so it is not the case with nuclear that the Treasury are leading.

As for the gas generation strategy, we developed it. We had the pen. It was agreed with the Chancellor that he would announce it at the time of the Budget. That was absolutely fine by us. That was the agreement ahead of the Budget. The position the Prime Minister took at Prime Minister's Questions was in response to a question. I would point you to the fact that Ofgem were announcing their conclusions for the retail market review a few days after that session of PMQs and the proposals that are going forward for tariff reform are based on the retail market review done by the independent energy regulator. I think those facts as I have just described them slightly jar, again, with your interpretation.

Q417 Chair: Is the Government still serious about its energy reforms and the need for more low carbon investment or is it now pinning its hopes on the good burghers of Sussex allowing their county to be dug up to discover lots of shale gas and we are going to have an almighty dash for gas?

Mr Davey: Our low carbon investments are very strongly committed to by all people across the Government. They are central to our energy strategy. We have the levy control framework that was agreed last year. We have a tripling of support for low carbon to £7.6 billion by the end of this decade. We have the Energy Bill that is reforming the electricity market to provide the world's first ever low carbon electricity market. This is not a sign of a Government reneging on its low carbon agenda, far from it. I think the shale gas agenda is extremely exciting, too. These are not mutually exclusive. Although we need to invest in a lot of low carbon, whether it is renewables, new nuclear or CCS, we will still need an awful lot of gas over the next two decades, three decades or more. All our analysis for decarbonising our economy and society shows that, including our detailed carbon plan.

There is this myth that it is low carbon or gas. It is low carbon and gas and the question people have to ask themselves is, "Do we want to increasingly rely on imports of gas as production of gas from the North Sea declines or does not increase to what it used to be and we have to import a lot more or, if there is a potential opportunity for onshore gas being produced from fracking, do we close down that option?" I think we must keep it open. I think we must explore that option. We are doing that vigorously, though there are other people who disagree with the vigour with which we are going about this. We are doing it to make sure that it can be done in a way that takes the public with us and can be done in a way that is acceptable and I think we are leading Europe again in that.

Q418 Albert Owen: I just wanted to come in on a couple of those points. Can I just go back to the role of the new Minister of State and BIS? Who is his boss? Is it your friend and colleague—

Mr Davey: It is the Prime Minister, probably.

Albert Owen: No, whose Department does he work for? Does he work part-time in your Department? Does he work for BIS and seconded over to your Department? What hours do you expect out of him? What duties do you expect out of him? Importantly, the primary role of this Committee is to scrutinise your Department and yet we have not had any clear indication from you or your Department what responsibilities that Mr Hayes had have been transferred over to any other Minister. Is Mr Fallon doing it part-time or have other Ministers been given extra roles as well?

Mr Davey: If there are particular questions about the ministerial response I am very happy to answer them. The ministerial responsibilities for Mr Fallon are on the website. They are not hidden away. They are very transparent.

Albert Owen: Why have you not told us about them? The question was to you, from us, why haven't you told us about them? We hear in the media that we are going to have a different Minister of State. We hear in the media that Mr Hayes has been promoted to have an internal role within the Conservative Party. What does that say about your Department and energy policy?

Mr Davey: We have had the benefit of the work of John Hayes, who took the Energy Bill through the House of Commons, with some aplomb I should add—

Albert Owen: With a what, sorry?

Mr Davey: With some aplomb.

Albert Owen: Right, okay. Is that what you call it?

Mr Davey: Then the benefit of Mr Fallon is I think extremely good for energy policy. The fact that Mr Fallon brings a wealth of skills from his previous career as well as the benefits he has as a BIS Minister is something to be welcomed. I have talked to many people in the industry who think that is a good thing.

Q419 Albert Owen: You are comfortable as Secretary of State for Energy and Climate Change that you have a full-time Minister being replaced with a part-time Minister?

Mr Davey: I think the question for me is can the work that needs to be done get done. Everything that I have seen from Michael is that it is getting done in a very professional, very diligent way. He is an extremely hard-working Minister.

Albert Owen: I am not judging Mr Fallon on his ability.

Mr Davey: Therefore, I think this Committee and you, Mr Owen, should be relaxed about that.

Albert Owen: I am very relaxed. I just need some information from you. Are Mr Hayes' responsibilities going to be spread between other Ministers or are they going to be taken over in a part-time capacity by a BIS Minister?

Mr Davey: There is some look at the ministerial responsibilities that Mr Fallon has both at BIS and at DECC to see if there are things that can be taken off his list of things. We have already, for example, taken off him, from DECC, the work that Mr Hayes was doing with respect to the deregulation agenda and Baroness Verma is doing that. I believe Dr Cable has done similar things at the Department for Business, Innovation and Skills. The ministerial responsibilities, I stress, are on the website. If you would like us to write them—

Q420 Chair: I am very sorry to interrupt you. Just on that point, I have looked at your website in the last two or three minutes. The last update on Mr Fallon's responsibilities was on 28 March and it said, "The exact portfolio of the Energy Minister is still to be confirmed following the appointment of the Rt Hon Michael Fallon in addition to his current role as Minister in the Department of Business."

Mr Davey: I beg your pardon. I assumed it was on the website. It ought to be on the website. I will ensure the website is updated.

Chair: Two months into his job—

Albert Owen: I am very relaxed but I am still not clear. Do you know what his responsibilities are, Secretary of State?

Mr Davey: Of course I do.

Albert Owen: Okay, so you will let us know in detail what they are?

Mr Davey: Of course. They are not a secret. I am sorry that they are not on the website.

Albert Owen: You did tell me they were on the website.

Mr Davey: Yes, I did and I made a mistake. I absolutely apologise—

Albert Owen: We all make mistakes.

Mr Davey: —that I do not manage my website on a daily basis.

Q421 Albert Owen: One final point, Secretary of State. You said that some of Mr Hayes' responsibilities had gone to your colleague in the House of Lords. For scrutiny purposes, it is going to be difficult for us to scrutinise the responsibilities that she has at DECC questions. Is Mr Fallon going to be able to answer some of those questions or, indeed, yourself?

Mr Davey: This is not a new thing, to have a Minister—

Albert Owen: I am not saying it is new. I am asking specific questions.

Mr Davey: Therefore, in terms of the previous practices at DECC oral questions or, indeed, the Select Committee, where you want to ask Ministers questions about responsibilities of other Ministers, you are very free to go ahead. Of course I am responsible for all policies, so you can ask me any question you like in the Department.

Q422 Albert Owen: Okay. On that one, sorry, just to drill it down, what Mr Hayes had as a responsibility has been transferred up to your colleague in the House of Lords. You will answer for it in the House of Commons or will Mr Fallon?

Mr Davey: I think it could be either Mr Fallon or myself. When we, for example, are doing topical questions you will have known from not just my Department but other Departments that we often decide at the last minute who is going to take a particular question.

Albert Owen: Sure, but a specific question?

Mr Davey: If it was a written question, for example, it almost certainly would be answered by Mr Fallon.

Q423 Ian Lavery: The general public are very interested in the cheapest tariff proposals, which was outlined by the Prime Minister at PMQs. Your front-line Minister, Greg Barker, stated that the detail of the cheapest tariff proposals will be set out in secondary legislation. I wonder if you could give an idea of how the mechanics of forcing suppliers to put consumers on the cheapest tariff will work in practice.

Mr Davey: As you know, the detail reforms have come from the regulator, from Ofgem, who I know you have been talking to just now. What we are doing in the Bill is putting statutory backing to those proposals, but it will be Ofgem who will take them forward. I understand they will start implementing them this summer and hopefully there will be full implementation by March 2014. There are a number of elements to it, which we could go through.

The element that you have particularly raised is that there are some customers of some energy companies who are on so-called dead tariffs, tariffs that are not currently available in the market. They tend to be uncompetitive, so those customers are paying significantly more in some cases than they should be. Under Ofgem's proposals, which we strongly support, those companies will have to move them down to the tariff they have of that type, whether it is a variable type or a fixed type. Normally, in these instances, it is a standard variable tariff that has become a dead tariff over time. That is one example that you mentioned in your question but, of course, there are many other aspects of the retail market review and the tariff reform that Ofgem have put forward and which we support.

Q424 Ian Lavery: How do you measure Ofgem's performance in delivery of policy objectives?

Mr Davey: In terms of the tariff reform or more generally?

Ian Lavery: More generally.

Mr Davey: The Government when it came to power did a review of Ofgem, had a lot of discussion with the industry and consumer groups and so on, and we decided that there were a number of things we needed to do. The strategic policy statement, the SPS, is probably the core of it in terms of the accountability and the framing of what Ofgem does. There are clauses in the Energy Bill to take that proposal forward and it will set out in clear terms the different roles played by the Department and particularly Ofgem and how that will work. I think that strategic policy statement is probably the core of how Ofgem will be held to account by the Government, yourselves and others.

Q425 Ian Lavery: In relation to Ofgem, it would be interesting to hear how you, as the Secretary of State for Energy, currently rate Ofgem's performance. If you have obviously scrutinised it, which I am sure you have, what areas for improvement have you identified as priorities?

Mr Davey: Let us start off by recognising that it is very important that Ofgem has its independence in the EU's third energy package and I would support, as a former Competition Minister, the importance of independent regulators. It is important that people recognise they have that. Because of investment and because of consumers, it is important that there is certainty there and that people do not think Government is going to second-guess or interfere with the regulator. Of course, we take an active interest in what they are doing, because that is very important for the efficient and fair running of our energy markets.

I could point to one or two things that I think are welcome from Ofgem in recent times. First, the retail market review we talked about. When we were in Opposition we were arguing that we needed to have less complexity in the tariffs. Ofgem, through the retail market review, are simplifying the tariffs and I think that will prove to be good for competition and good for consumers. They have not yet told us their conclusions from the consultation they have done on liquidity in the wholesale markets, but we very much welcome that they have said in their consultation paper that they intend to intervene to improve liquidity in the wholesale market. That is something that I strongly support and one of the reasons we put in the Energy Bill some reserve powers to make sure that the changes that come from their deliberations will actually happen. Those two examples of improving competition in the retail market, improving competition in the wholesale market, are welcome developments and Ofgem deserves credit for taking them.

Q426 Albert Owen: Can I just come in on Ofgem's role in particular? I understand what you are saying about its independence and getting on with it. As you know, there is an all-party group on the off-grid gas supplies that has come up with a report that has been debated and responded to by your Department. One of their key recommendations is to enhance the responsibilities of Ofgem to the off-grid. I asked your predecessor about that. He said that it would be a matter for Ofgem themselves to make the request. When I asked the Chief Executive of Ofgem, he said that is a matter for Government. Can I ask you, as the representative of Government here, whether you would welcome what the all-party group has done to have equal regulation off-grid as they have on-grid?

Mr Davey: I am very happy to get back to you on that, Mr Owen. I have not looked at that detailed proposal. Again, it has not been made to me from Ofgem and I am afraid I was not aware—

Albert Owen: No, just for clarity, from the all-party group.

Mr Davey: I was not aware of the all-party group's recommendation. I apologise that I was not aware of that, but I think it is worth reminding the Committee that when we have considered increasing the powers of Ofgem, we have acted. For example, for—

Q427 Albert Owen: With respect, can I just ask your opinion on this? I obtained the opinion of your predecessor, who said it was up to Ofgem and they would be minded to take it on board if the regulator made that proposal, but the regulator said very clearly that it was up to Government. You do represent the Government. What is your opinion, just your opinion as the current Secretary of State?

Mr Davey: I am sure that we do not need Ofgem's permission to give them extra powers. We are the Government. We can legislate to give Ofgem extra powers if we so chose to. I can't answer for what my predecessor particularly said but I cannot see why, if we chose to give Ofgem more powers, we could not do that. We are doing it in a number of areas to enhance protection for consumers. As for the particular example that you have cited from the APPG, I would have to study that.

Q428 John Robertson: I asked questions to Ofgem about the connections with Europe. I know Europe can be a bit of a problem for this Government, but your wing should be okay in relation to using it. I asked them Ofgem if they would go and use the EU powers. It was Consumer Focus who drew to our attention the EU electricity and gas directives, which Ofgem seem somewhat reticent to use, and also the EU REMIT and legislation as well to look at how we can get more information on the Big Six to find out exactly what are in their bills and why they are in the bills. Ofgem seem to have a problem with using it. What do you think? Do you think they should be working with Europe on this?

Mr Davey: My understanding is Ofgem have been working with Europe.

John Robertson: No, not in talking to them.

Mr Davey: In the development of the REMIT powers, I thought both the UK Government and Ofgem had contributed to the debate at European level. As you will know, we are implementing the REMIT. We want to be one of the first countries in the EU to transpose that. Some of the powers that were in REMIT we already had in our legislation, but there were others that we needed to consult on. We have consulted on them. Ofgem has been very much part of that, not least because they will be powers given to Ofgem. I am surprised, Mr Robertson, they said that because they are involved in the transposing of those powers because they will be powers given to Ofgem.

John Robertson: I am sure they have heard what you have said.

Q429 Dr Lee: Moving on to wholesale energy prices and the future of UK gas prices, we are likely to become increasingly dependent on supplies of gas by LNG as the contribution from the North Sea declines. Won't this make the UK increasingly exposed to prices in Asian markets?

Mr Davey: One of our long-term concerns is to make sure that we have a diverse energy supply, that we are not over-dependent on a particular energy source and, in this case, for our gas, which is going to be a very important part of our energy mix, it is important that we are not dependent on one particular source. But we do have a very liquid gas market in the UK, probably the most liquid in Europe if not the world. Yes, we have gas supplies still from the North Sea and we are doing an awful lot to enhance those supplies because they have been declining. We want to halt that decline if we can, but we also have pipelines from Norway and from the continent as well as LNG. The point I am trying to make, Dr Lee, is that we have a variety of supplies and that is the right thing, but I do not disagree with your point that we should not be over-reliant on one form of energy because it exposes our economy.

Q430 Dr Lee: Yes, that is all very well. The problem is that the Asian economies need the energy at the time of winter and their winter is the same as ours. Their seasons are the same, so the likelihood is we are going to need it as much as when they need it. If you add into the mix the rather bizarre decision by the German Government over nuclear and Fukushima in Japan, the likelihood is we are going to be dealing with higher prices. The tanker coming out of the Strait of Hormuz, it is going to turn left, isn't it? It is not turning right.

Mr Davey: If you look at the recent flows you are right to say that Japan has seen some very high hikes in the gas price it has been prepared to pay and that has attracted quite a lot of the LNG that has been around. That does not mean there have not been tankers from Qatar and other places that have come to the UK. You are right, LNG is one part of the gas market that is much more global by the very nature that it is on ships, but my point to you back is that we are not dependent on LNG. We have other forms of gas from the North Sea, from pipelines from other countries.

Q431 Dr Lee: Yes, but you said earlier that gas is going to play a major part and we are going to need significant amounts of gas. Fingers crossed, they can recover further assets from the North Sea, and fracking delivers whatever, but the reality is that we are going to be increasingly dependent on gas as coal switches off. That is true and, in view of the fact that our gas we get from Europe, the Norwegians are going to start—if the Germans start paying more for it because they are having to import more because they have switched off their nuclear power stations, the chances are we have high gas prices ahead of us, don't we?

Mr Davey: You are right to say that if you look at some of the forecasts by the International Energy Agency and some of the market analysts, they do say that gas prices are likely to stay high and potentially to go higher. One of the problems, of course, in working out where the future gas prices will be is understanding the underlying demands in the three regional markets that we have in the world; the North American market, the Asian market and the European/North Africa market. That has been complicated by things in Germany and Japan, the nuclear switch-offs that you have referred to. It has also been complicated because we do not know how much unconventional gas we are going to get from fracking, particularly in Europe and North Africa. I hope that will be successful but, again, it is one of these uncertainties.

Q432 Dr Lee: Sure, and also it would be further complicated by increased renewables because on cold windless days you have to underwrite every wind farm with gas. Moving on to the winter gas storage problems we also have, we have pretty limited facilities. What plans do you have to develop seasonal gas storage capacity?

Mr Davey: A number of new gas storage facilities are being built, but one of the—

Dr Lee: Whereabouts exactly?

Mr Davey: I do not know. My colleagues are not the experts in this area. We could give you the exact details. Some of these are fast-cycle gas storage plants, which are quite interesting because they are different from some of the storage plants we have had previously in the country, which have been more long-term storage. It is quite helpful because it can deliver the gas more quickly. There are a number that we have under way.

One of the misunderstandings that we have seen, not least in the headlines a few months ago when we had that cold period, was that people seemed to think that we depended on the gas from these storage facilities. Because we have a diversified supply of gas, we take gas on any one day from a number of different sources, including the pipelines we have with Norway and the continent, including LNG and including the North Sea. Sometimes people think that the storage is a critical part of the supply of gas to the UK on any one day. That is not the case. It is part of the mix, but not the critical part.

Q433 Dr Lee: Yes, but, of course, having that capacity would allow us some buffer against a closure of the Strait of Hormuz event, for example, would it not, which is not beyond the realms of possibilities at the moment, is it?

Mr Davey: I would suggest to you that if the Strait of Hormuz closed you might be more worried about our imports and the world's imports of oil rather more than about gas.

Dr Lee: I know, but the problem is a lot of our long-term contracts with the Russians are fixed oil barrel prices. So it does have an impact.

Mr Davey: The UK does not have very many long-term contracts with Russia, as you know.

Dr Lee: Yes, but if those countries have those supplies, they are going to look elsewhere for their supplies and thereby drive up the gas prices coming from elsewhere, which we use from our diversified base. The American shale gas, the Norwegian gas, all those prices will be lifted up by the fact that the gas price from Russia has gone up because the barrel price has gone up.

Mr Davey: If, Dr Lee, you are interested in the—

Dr Lee: Do you accept—

Mr Davey: I would like to answer your question. We do a lot of work thinking about energy security where we look with colleagues across Government about "what if". What if the Strait of Hormuz closes? What if a pipeline has some maintenance problem or a strike so that the pipeline is not getting gas to the UK? We look at scenarios where we take two or three things happening and say, "Would we be secure for gas supplies if this, this and this all happened suddenly on the same day?" We do that type of analysis because you would expect us to do that. There may be some security issues, I am not sure how that would play, but I am very happy to share with the Committee some of that work.

Dr Lee: You do not have sleepless nights about it, is that what you are saying?

Mr Davey: No, I do not. I think we do a lot of preparatory work and, if anything, we have stepped that up.

Q434 Dr Lee: Okay. Moving on to comparing gas and electricity prices within the European Union, your written evidence states that UK consumers are paying the lowest gas and among the lowest electricity prices in the EU15 when tax is included. However, when tax is excluded UK consumers pay a significantly above-average electricity price and slightly above-average gas price. Why don't you use tax-exclusive figures to give a fairer representation of UK energy prices compared with Europe's?

Mr Davey: We use the ones with tax because that is what people pay.

Q435 Dr Lee: Yes, but when you are talking about—

Mr Davey: Well—

Dr Lee: No, hang on a minute. When you are talking about wholesale energy prices, that is net. It is irrespective of tax. The price is not set on the markets based on what the VAT level is in various countries. We choose to add that on top of that. In this context, we are trying to work out whether we are paying significant sums of money wholesale, separate from tax. I am not on about how much it costs Mrs Bloggs down the road because she is paying VAT. I am on about how much you are paying Vladimir Putin for your gas, and that is not subject to VAT.

Mr Davey: If you are saying that there may be more room for increased competition to make sure—

Dr Lee: No, candour; not competition, candour.

Mr Davey: Sorry?

Dr Lee: Candour.

Mr Davey: Candour?

Dr Lee: Yes, as in let us be transparent; let us compare like with like is my point.

Mr Davey: You were able to deduce from our figures that we presented after-tax figures, so we were pretty transparent on that and we always have been. I think one of the reasons we have done that is that is what people pay. I think that is quite understandable. People obviously want what they are paying, understandably, and I do not disagree with your line of questioning, Dr Lee. It is a fair question to say, "Pre-tax, are we getting the best prices?" We are getting, as you said, around average, a little above, in electricity and that suggests that there is room for more competition. One of the obsessions I have in policy in both retail and wholesale markets is to make sure we have as competitive markets as possible.

Q436 Dr Lee: Building on that, we have not seen any new companies of significant size entering the energy supply market. What do you see as the main barriers to entry to provide the competition that you seek?

Mr Davey: You are talking about the supply to retail customers now?

Dr Lee: Yes.

Mr Davey: We have seen quite a lot of smaller companies. They do not yet have big market share, but I think the recent trends are in the opposite direction to the one you described, Dr Lee. One of the reasons I am very keen on collective switching, which I have regaled the Committee about before—this idea of bringing consumers together so they can purchase together and increase their buying power—is not only does it get better deals for those customers who see the deal that is good for them after joining a collective switch, not everyone will but many do, but the auction of a large number of accounts promotes competition. It has an indirect effect for all customers because it enables smaller suppliers to gain access to a larger number of accounts at relatively low cost. Winning new accounts in the energy business can be quite an expensive process, from knocking on doors, from mailing and so on, but the auction process—collective switching, which I have been really pushing, as you know, as Secretary of State—opens up in one go large numbers of accounts. We have seen as a result of that some of the small suppliers increasing their customer base. I think the trend on that side is such that while I am not saying we are there, we are seeing more competition, not less.

Q437 Dr Lee: Okay. Finally, a question on liquidity. Contracts for difference proposals under the Energy Bill will require a liquid market in electricity contracts, and yet Ofgem has been striving to improve liquidity since 2009 with limited success. Does your Department have any alternative arrangements if liquidity does not develop?

Mr Davey: It is something we have been doing a lot of work on, but Ofgem equally have been doing a huge amount of work on it. They have learnt from the period that you described where they have done analysis for a number of years but, as I said in my remarks I think to Mr Robertson, the latest consultation had some very strong proposals and I understand that GEMA are looking at them to make final decisions following that consultation next month and we look forward to their conclusions.

We have made it clear that we want to see much greater liquidity in the forward markets. That is good for competition. It is good for transparency. I think it will help independent generators not just get contracts for difference for electricity market reform but, anyway, enable them to manage their risk better. It will be one factor in helping them get power purchase agreements so they can grow and compete with the bigger companies. I could not have been clearer over a protracted period that that is the direction of travel that I support.

Just in case anyone was in any doubt, we obtained in the Energy Bill reserve powers so that if Ofgem proposals do not work, we would still have the powers to come and revisit the wholesale markets to get liquidity. I do not think we could have been clearer supporting the independent energy regulator and giving a clear steer that we want to see more competition in the wholesale markets.

Q438 Sir Robert Smith: One of the concerns raised with us about what is affecting bills is, of course, some of the levies for social and environmental reasons that are put on to the energy bills. In your submission you talk about how bills are now 11% lower or will be £166 lower in 2020 by doing what you are doing than they would have been without your intervention. How have you come to that conclusion?

Mr Davey: In order to make sure we are being as transparent as possible, the Government every year does a bills and prices report that analyses the impact of all our energy and climate change policies for consumer bills and business bills. It is quite a detailed piece of work and the figures you described, Sir Robert, come from that work. What that shows is all the different impacts on energy bills. The biggest, of course, is the rise in wholesale gas price. We have seen in recent years a 60% rise. Given wholesale gas is about 50% of the average dual-fuel bill, you can see why that has been the big driver of higher energy prices.

But in our bills and prices report we look at the other factors. We look at the network costs. We look at margins. We look at overhead costs. We look at taxes and we look at Government policies that you referred to. When you look at the average dual-fuel bill, 9% of it comes from Government policies. In 2013 that is £112. Yes, we have added to bills, but it is by no means the biggest increase in the bills. That is far outweighed by the increase in wholesale gas prices and network cost rises. It is also important to remember what that 9% is going on. Some people think it is all on low carbon; far from it. The majority of the Government-imposed cost elements are on energy efficiency and measures to tackle fuel poverty. That often is forgotten when you read these articles that say it is the Government who are driving up costs. Our measures are designed to help people save energy long term and also to tackle fuel poverty.

Q439 Sir Robert Smith: Do you think there could be a clearer breakdown of those impacts on the bill to the individual consumer?

Mr Davey: Quite a lot of energy companies do break down their bills. Obviously they may do that in different ways. One of the reasons why I think it is right that my Department publishes the bills and prices report is—we put out the information there and let people challenge it, read it and debate it—is so that there is an authoritative position. We look at our impact of our measures on current bills and we believe that without our policies, bills would now be higher. Our policies on things like product efficiency, energy efficiency, have helped drive overall bills down compared with what they otherwise would have been. When you then project forward to 2020, that saving is greater. Overall, if you look at all our policies together, which I think is the only fair way rather than just taking a little slug as some people like to do, we are trying to cushion consumers from these high gas prices that Dr Lee referred to. It is a worry. We can’t control global gas prices, of course we can’t, but I think our job as a Government is to try to cushion people from the effects of those. That is why we have taken those measures that are behind that analysis and it is why it is one of my obsessions to try to help consumers who are feeling the pinch with high energy bills.

Q440 Sir Robert Smith: One of the concerns is that, of course, the poorer consumers are paying the same big chunk as some of the better-off consumers and, therefore, that method of raising funds is more aggressive than general taxation. How is the debate held as to whether something should be a levy on the bill or funded through the general taxation?

Mr Davey: I think the big debates on that happened both in the last Government and the early stages of this Government when they were doing the spending review and there was a decision that they would continue with these levies on consumer bills. Although you make that point that there may be some poorer consumers who are not getting the benefits of CERT or now ECO, yet are paying on their bills—and that is a valid point—I note that Professor John Hills’ report into fuel poverty, when he looked at different ways of funding energy efficiency programmes to help the fuel poor, saw a case for the levy-funded approach, not least I think because it might force energy companies to be more effective in rolling it out. I think I am right in saying that he thought it was a better way of delivering those programmes. Gareth, do you want to add to that?

Gareth Baynham-Hughes: Yes. There is an assumption built into the Hills review about the types of measures that would be delivered through investment in energy efficiency if it were done by suppliers or if it were done by Government. The assumption that was in the review was that competitive pressures and so on would encourage energy companies to deliver a more cost-effective package of measures. I think that is something we would expect to see under ECO. If you look at the amount of money that used to go into Warm Front, for example, compared with a similar amount going in under ECO, we would expect more households to be reached through ECO because it is more cost effective per measure.

Q441 Sir Robert Smith: One of the other suggestions to maybe smooth the burden is to have a protected block of the tariff that is not subject to the levy and then levy on those consumptions over that protected block. Is that at all attractive?

Mr Davey: I have not looked at detailed analysis, but I will give you my first instincts and it is the issue that the Chairman has raised with me before about the rising blocks. He will recall that when he was Energy Minister he received the same advice that I get, namely that there are some energy users who use a lot of energy because they are large households who are very poor. If you restructure the tariff system in a number of ways, in the way you described of restructuring the levy system, you might have an unintended consequence of putting more weight on some of these large households who are fuel poor. I am not saying that necessarily would follow from your proposal because I have not analysed it, but that might be the outcome.

Sir Robert Smith: I suppose another concern would be those who are not on the gas grid and rely on electricity for their heating would be similarly penalised.

Mr Davey: If they were high consumers, yes.

Q442 Mr Lilley: You measure that element of the environmental levies and so on that falls directly on household bills. The rest falls on industrial energy costs, but you would agree with me, I am sure, that ultimately all costs are borne by individuals. Companies do not exist. They are simply composed of employees, shareholders and customers. Could you tell us what proportion of the total cost of all these levies falls directly on household bills and what proportion goes through industrial bills?

Mr Davey: I do not have that figure to hand.

Mr Lilley: I did put down a PQ and I received a very confused answer, but it seemed to say roughly a third goes on household bills and two-thirds via industry. I think it was designed to confuse.

Mr Davey: I am happy to look out that written answer and see if there is any way we can make it clearer for you. If you have a particular point you wish to come back on, then we aim to try to make it clearer.

Mr Lilley: That is what I am doing now. If it is two-thirds to one-third, that would mean that the total cost being borne is three times the figure that you quote.

Mr Davey: Let us be clear. In our bills and prices report that I referred to before, we do not just do it for consumers.

Mr Lilley: You do it for industry, but industry does not exist. It is employees, shareholders and customers. Industry does not pay the bill. Employees, shareholders and customers pay bills.

Mr Davey: I do not deny the instance that you are referring to, but the point might well be that the people who own those industries that you are referring to may not be only domestic residents because, as you will readily be aware, many industries are multinational and they have owners who live all round the world, so we get into quite a complicated system of the distributional effects of these levies. Moreover, they may be a smaller part of the population compared with the analysis that you would do on distributional effects for consumers. If you are suggesting that it is somehow wrong to separate the two, I would disagree with you. I do not disagree with the fact that, of course, it is individuals who pay bills, but I do not think it is true to say that there is a complete map-over with other analysis in terms of the individual with economic interest in the industries that we are talking about.

Mr Lilley: No, but it is incomplete to present households as if they are the people who pay the bills and industries as if that is something that does not consist of—

Mr Davey: I would be interested in the methodology that tried to merge the two. I think it would be—

Mr Lilley: It is quite simple. You take the total cost and divide by the number of households and you get an average figure.

Mr Davey: Yes, but I do not think it would be an accurate figure.

Mr Lilley: It would be an average figure.

Mr Davey: It would not be an accurate figure for the impact on the UK domestic consumer for the reasons I have already given you.

Mr Lilley: Some of it might go abroad, as indeed does a large slug of the subsidies we pay, most of which end up in foreign households. You never take that into account.

Mr Davey: I believe in open markets and global markets. As someone who believes in free markets and free trade, I think that is an inevitable consequence. The people who do not believe in free markets and free trade, I think, would undermine the prosperity of our country. Our policies should not be protectionist.

Mr Lilley: The idea that subsidies are a symptom of free markets is an interesting one. I will just round up and say could we have an answer to the question: what share of the total environmental levies goes on households and what share goes on taxpayers and industries, if so called?

Mr Davey: Yes, I have already said I will provide it.

Q443 John Robertson: On company profits and tax, today's *Independent* has said that struggling customers prepare to receive the announcement that the SSE are going to have a 30% jump in profits in its division supplying gas and electricity to the UK. Now, given that SSE put gas and electricity both up by 9% back in October, what do you have to say about that?

Mr Davey: To make sure that energy companies' profits are reasonable ones but not excessive, the Government need to ensure that we have proper competition both in the retail sector and the wholesale sector. It is absolutely critical that the consumer is not ripped off and our best way of doing that is with competition. Of course, when energy companies have poor behaviour with mis-selling, as we have seen recently, it is absolutely vital we have strong consumer protection laws and Ofgem can levy the fines, which we have seen. Poor behaviour can be cracked down on, but competition is in many ways our bulwark to make sure that profits are reasonable and, let us be clear, there have to be some profits.

John Robertson: 30%?

Mr Davey: Let me just—

John Robertson: When you are talking about—

Mr Davey: That is why we may well need more competition. It is what I have been talking about the whole time. I am absolutely not complacent about this, Mr Robertson. We have to act.

Q444 John Robertson: You say competition is great. They have all put their prices up within months of each other, to round about the same figure. The highest was 10.8% and the lowest was 7%. They are all the same. Where is the competition?

Mr Davey: I think the price rises were different and one of the major reasons for the prices going up was, regrettably, the rises in global gas prices that Dr Lee was talking about. We absolutely have to make sure that the energy companies feel the heat of competition. It is one of the reasons why I am, again in answer to Dr Lee's question, so keen to make sure that through things like co-operative energy buying, through tariff reform, that that competition bears down on the energy companies. I think they should expect that and they should expect me as Secretary of State and Ofgem as the independent regulator to be very hard on making sure we have the most competitive market.

Q445 John Robertson: Seriously, I think you are missing the point; either that or you are not getting the right advice. The Big Six will tell you that they are only making 2% to 3% profit. As a matter of fact, your own statement that we had in previous times said 3% profit, but that is retail. If you go to generation, they are making between 17% and 20% profit. When they pay their dividends to shareholders in the UK, they put the whole lot together. They do not just say, “We are only going to give you a dividend on the 2%”. They say, “We will give you the dividend on the 17% plus the 2%.” They are ripping us off and yet we cannot get hold of the figures. We cannot get hold of the books. That was the reason I asked you a question earlier on about Europe, who seem to be part of the way of getting some of this information. We hear of a company, npower, who now want to consolidate their accounts in Malta. With the best will in the world, this is a company that does not pay any corporation tax in the UK. Please, how are you going to support the people in this country?

Mr Davey: We are determined to support the people in this country, whether they are consumers or businesses, and we do support and have taken action—indeed, the last Government started this in 2009—to get greater transparency in the accounts of energy companies. They are now required to have segregated accounts and, although that is a recent development, I think it has improved transparency. There is a recent report by BDO for Ofgem to see whether or not there are improvements to that new system to make sure it is as transparent as possible, so you and others and Government and the regulator can have that information. That transparency is critical to enable us to take decisions as we need to. If you want to talk about tax I am very happy to talk about that, but I do think the transparency in the accounting regime that the energy utilities face is very important.

Q446 John Robertson: But this seems to be related. It is not just about energy, I know. I have a rather large letter kicking about here from npower, from a Mr Paul Massara who gave evidence to us, pleading poverty always. I have to say, I understand what you are saying, he may not be breaking the law, but we are doing nothing to hold these people to account. We have two companies who pay corporation tax to the proper amount. We have three companies who pay some, and we have this company, which pays none. That can’t be right. One of them can’t be right and the other five wrong. There is something not right here.

Mr Davey: Mr Robertson, I am not going to go into the details of an individual company’s tax affairs, not least because, not surprisingly, I do not know all the massive details, but I will comment—

John Robertson: I only asked a basic question, without being fair to all the—

Mr Davey: Can I just finish my answer, though? I did note from your previous proceedings that Mr Lavery, I think it was, had asked Paul Massara a number of detailed points on RWE’s tax affairs. While there were some interesting exchanges there, it is worth noting to the Committee that, in his reply to this Committee and the reply that I was copied in on, the argument he made was that npower had been investing heavily in plant in this country. They showed that they had been the largest investor of the Big Six over the last few years and the reason why their tax bills were what people have been saying at this Committee was because they had used the capital allowances passed in Finance Bills by the last Government, and confirmed by this because they were making that massive investment. The capital allowances are there to give tax advantages to companies which are making that investment. While I completely agree with you that we need transparency and we need to make sure that companies, and not just energy companies, all companies, pay the tax that they should pay, if we also want to promote investment and encourage investment, it is important that when a company uses capital allowances, as Parliament wanted them to do so, I do not think they should be criticised.

Q447 John Robertson: Okay, but this is the same company that can't tell us what they are generating in this country. If they can do that, surely they can tell us exactly how much money is involved in the generation of energy. Let me explain it to you, because you obviously do not know. You have the generators and you generate the power. You put it into a central area of which, funnily enough, the same companies come around and buy it back off themselves and then sell it to the customer. That generating side is the one where they make the most money and the retail one is the one they say makes the least money. Why do they do that? Because it is all a part of trying to hide the money at the other end that can be hidden within the European and the big multinational companies.

Let me go on to another thing about your own Department. I wrote a series of questions on 10 May and basically the questions were: "So, as the Secretary of State for Energy and Climate Change, how much has the Department given in subsidy to RWE npower in each of the last five years, and to what projects the money was earmarked?" I asked that for each one of the Big Six, and I received this extensive answer. "The data is not collected in the format requested and could not be provided except at a disproportionate cost," which said to me you have not a clue how much is involved, and yet I can go down the Library and they can give me figures of projects and money where the Government has invested.

Secretary of State, it is not good enough. We have to hold these companies to account, and I do not think you are doing the job properly if you do not hold them to account. It is all very well making excuses for them, but we have people who cannot afford to pay their bills and we need to support them, not these companies. They can afford to support themselves. If they can support themselves in tax avoidance, then they can certainly support the country in paying some of the taxes that they are avoiding paying.

Mr Davey: You are absolutely right that we have to hold companies to account. They have to be held to account for the way they behave in the electricity market and the way they buy and sell energy. They have to be held to account for how they pay their taxes. But I am afraid I reject your conclusion that that is not happening and I can cite very recent examples of record fines imposed on UK energy companies for mis-selling, and I would have thought you would have welcomed that, not failed to mention it.

John Robertson: Of course you did.

Mr Davey: Moreover, Mr Robertson, in the Energy Bill we have increased the support for consumers because we have said that, where an energy company is fined for bad behaviour, those fines do not just come to the Government and go to the consolidated fund. They go to help those consumers who lost out. That is action that this Government is taking to make sure that consumers who are mistreated get proper recompense, and I think you should welcome that. I would have thought you would want to welcome that.

John Robertson: I gave you the credit last time when I said how well you had done. This time I am not going to do that, so you do not expect me to be nice to you all the time.

Q448 Barry Gardiner: Secretary of State, I was very glad that you mentioned the BDO report and that you are aware of that. You will probably recall that there were eight recommendations that BDO made. Do you happen to recall the responses that Ofgem made to those eight recommendations?

Mr Davey: As I recall, what BDO said was, overall, the way the accounts had been presented and segregated was fair and reasonable. So their overall judgment—

Barry Gardiner: The trouble of just reading executive summaries, Secretary of State—

Mr Davey: Let me finish answering the question, Mr Gardiner. You did not mention this in your question, but for the record it is important that the full picture is painted. BDO said that the overall approach was fair and reasonable, but they asked for some improvements and then we get to the recommendations. My understanding is that Ofgem have accepted some of those recommendations, but one or two they have not. I do not know—

Barry Gardiner: Not one in its original form.

Mr Davey: Well, I don't know if Rachel wants to—

Barry Gardiner: "We do not intend to take forward this recommendation. We propose obtaining an independent opinion at least for the first year, but not necessarily from an auditor. We propose to take forward a variation of this recommendation. We do not propose to take forward this recommendation. We do not intend to take forward this recommendation. We propose to take forward a variation of this recommendation," and then the final two, "As a result of our amended proposals and recommendation, 3, 7 and 8 are no longer required in their original form."

In your response to Mr Robertson you pleaded BDO in aid, saying that this was an example of the way in which these companies were going to be held to account and you praised the BDO report, but the BDO report's recommendations have not been taken up by the regulator. That is the problem; critical recommendations.

Mr Davey: I start by going back to the key point, which you did not make, which—

Barry Gardiner: No, but you had already made it.

Mr Davey: —was that BDO said that they were a fair and reasonable approach. They found no evidence of distortions of company profitability. Let's start with that basis. They did make some recommendations, and Ofgem have not taken all of them forward and they have not taken some of them forward in the way that they were proposed.

Barry Gardiner: They have not taken any of them forward in the form that they were recommended by BDO. They varied or not accepted every single one.

Mr Davey: I think, and I have always said this, that we should keep this type of thing under review. This is a very new regime. It has only been going a few years. It is a unique regime, to my understanding, and therefore I think it is something that should be celebrated and supported. If there need to be more improvements we are certainly happy to consider them, but this was a report to Ofgem, not to the Government. Ofgem have taken the views that they have taken.

Q449 Barry Gardiner: Secretary of State, unless you had raised it in defence to Mr Robertson, I would not have brought it up. I wanted to ask you about fuel poverty and the Hills review. The spend on fuel poverty overall, as you know, has been cut dramatically. In 2010-11 it was £319 million. In 2011-12 it was £97 million. Five days ago you released the latest fuel poverty report from your Department and under both the Hills definition and the old 10% definition, fuel poverty has decreased and I want to give you credit for that. You will know that under the old definition it has gone down by 9.5%, and under your new definition it has only gone down by 4.3%—but that is because, of course, the figures are also smaller in the first place—but the fuel poverty gap has gone up. That means that, for those who are in fuel poverty, that poverty has become worse. In the light of that, can you assure this Committee that you believe you have allocated sufficient funds to tackle the problem?

Mr Davey: First of all, I slightly disagree with some of your interpretations of the facts. Let me explain why. First of all, I think, if you look at the full spending review period to March 2015, total spending on fuel poverty programmes is being increased if you take account of the levies like the Warm Home Discount and so on. I do not accept that there have been overall—

Barry Gardiner: Increased from where, from £97 million?

Mr Davey: Over the spending review period. I think there is a slight difference in views, I am afraid, with you, Mr Gardiner, over the amount of spend. Also—

Barry Gardiner: Sorry, I have just quoted two figures. Let us be clear whether you agree that those figures are accurate. That is all I did. I did not talk about anything else. I simply quoted that £319 million was spent in 2010-11, and £97 million was spent in 2011-12.

Mr Davey: I think you are focusing on taxpayer-funded schemes. In my analysis, I have included both taxpayer and levy funding.

Barry Gardiner: It is overall fuel poverty spend. It is both.

Mr Davey: Let me bring in the expert, but my understanding is, if you add both taxpayer-funded and levy payer-funded, the overall spending on fuel poverty programmes has increased during the spending review period.

Q450 Barry Gardiner: We are not talking about the spending review. I gave you two specific years, 2010-11, and 2011-12 and I gave you the figures for fuel poverty and the fuel poverty gap in those years in accordance with your own report produced five days ago. If you want to tell me they are wrong that is fine, but it is your report.

Gareth Baynham-Hughes: I do not recognise those figures on spending. I would have thought that total spending on fuel poverty through taxpayer-funded mechanisms that were in place at the time and through levy-funded and other similar policies would be way in excess of that. You are absolutely right, in terms of the fuel poverty statistics, that they showed a fall in the headcount under both the 10% indicator and the low-income high-cost indicator and an increase in the fuel poverty gap. The gap is the new measure proposed from the Hills review that helps you understand, precisely as you say, for those people who remain in fuel poverty, what the impact is of changes in incomes and changes in prices and so on. That is a very helpful insight that we didn’t used to have under the 10% indicator that shows you the depth of continuing hardship for households that happen not to benefit in a given year of the policies that are being deployed.

Q451 Barry Gardiner: Thank you. Mr Baynham-Hughes, you would agree with me that, under the report that you released, the depth of fuel poverty for those in fuel poverty, which under your own latest figures is 2,570 households—under the old figure it was 3,202 households—for those people, fuel poverty has become worse. Let me clarify also, for the purposes of the Secretary of State, that the figures are from your Department’s audited accounts and are what you actually spent, because of course it is not about what you budget to spend. It is about what you do spend and those figures are in your audited accounts.

Mr Davey: We may have been taking different periods, because clearly our fuel poverty spend over the period with the Warm Home Discount is coming on. Maybe they are not in the figures that you presented but, to be fair to the Committee, I am giving you the figures over the spending review period.

Can I go to the point that you were just focusing in on? Sometimes you are damned if you do and you are damned if you don’t. We published figures on fuel poverty showing that, under the old definition, fuel poverty was coming down. You welcomed that. I have to say I think that is probably a temporary reduction because we all know that prices have gone up and, therefore, we should still be incredibly worried about fuel poverty. Then you referred to one of the matters that we are using, a new measure from Professor John Hills’ review, which shows that depth of fuel poverty has become worse. It is one of the reasons why we needed to introduce that figure, because under the old definitions we would not have known that. We would not have known that. If you are going to tackle fuel poverty, you have to measure it properly.

Okay, if there has been a worsening that is something we should be worried about and I am worried about it, but it is rather odd, is it not, that you get criticised for measuring something properly, which other Governments have not done, so that you can make sure your policies are better targeted and better focused? Fuel poverty, like much poverty, can be grinding and with the depth of fuel poverty, just like the depth of income poverty, it is essential that we understand that better. The fact we did not in the past is a bad thing. The fact that we are going to in the future is a better thing so we can target our resources more effectively.

Q452 Barry Gardiner: Secretary of State, I have not criticised you for changing the way in which we calculate it today. If you apply the Hills methodology back to 2009, I think what you will find is that in 2009, under the Hills methodology, 2,697 people were in fuel poverty. That came down in 2010 to 2,675. The fuel poverty gap, which was 1,173, came down under Labour to 1,130. These are your own figures by the new methodology that you favour. What it shows is that up until 2010 fuel poverty was coming down and the fuel poverty gap was coming down; so the depth of poverty, the extent of that poverty, was decreasing. What your figures under your methodology show is that, while the number of households concerned has come down by 4.3%, the actual depth of their problem has worsened. They are worse off. What I asked you, which I still have not had a response to, is are you confident that you have allocated sufficient funds to tackle the problem or perhaps I should say that you have spent sufficient funds out of those that you have allocated in order to tackle this problem?

Mr Davey: I think fuel poverty is a huge problem and I think the figures that you show, that we have now caused to be published, show the depth of that. You are absolutely right to ask us whether or not our strategies are sufficient to meet that challenge. It is one of the reasons why we will shortly be publishing a framework for our policies on fuel poverty, and we will follow that up with the first fuel poverty strategy to be published in this country for, I think, 12 years or a bit longer than that. We are very much focusing on that. I can't prejudge the publication of the framework or the strategy and the resources that are going to go into that because we are working on that with both our stakeholders and within Government, but the fact that we are taking this so seriously, the fact that we had the Hills review, the fact that we are making sure that we, for the first time, measure it in a better way, and the fact that we are coming forward with a framework and a strategy does suggest to me we are taking this very seriously.

Barry Gardiner: I am delighted to hear that you are going to be publishing the new fuel poverty strategy shortly.

Mr Davey: The framework shortly; the strategy comes later because it enables people to respond.

Q453 Barry Gardiner: Can you give us any idea about the timelines there?

Mr Davey: I think the framework is quite shortly. The strategy will be towards the end of this year.

Barry Gardiner: That would be imminent and by the end of the year?

Mr Davey: Yes.

Barry Gardiner: Thank you for that.

John Robertson: Which year?

Barry Gardiner: This year.

Mr Davey: Mr Robertson, this year, if it helps you with marking of my—

Q454 Barry Gardiner: Professor Hills suggested to this Committee that a system of rolling targets that adapt to changing situations could be a better way of tackling fuel poverty than an elimination target. How effective do you think the current target is, and would you consider introducing a different system such as rolling targets?

Mr Davey: The proposal that Professor Hills comes out with, which is this low-income high-cost measure, in many ways is a more challenging measure because it is not an absolute measure. It is more of a relative measure. Therefore, it will be challenging to meet and it has these two elements, not just the numbers that are measured by this low-income high-cost measure but also the depth that we have been talking about. We have taken on board a huge amount of what Professor Hills has said. I am not familiar with the proposal of a rolling target. I am not sure where that has come from.

Gareth Baynham-Hughes: I think it was something he mentioned when giving evidence to the Committee.

Barry Gardiner: Absolutely. He said this to us, yes.

Gareth Baynham-Hughes: I do not have privileged information. I was just here watching it. My interpretation was that he was thinking about targets that would allow you to incrementally improve the situation of low-income, high-cost households. Presumably you would set five-year targets, and you would set absolute targets within that context, either around the level of the fuel poverty gap or around energy efficiency standards or something. I think that was what he must have been thinking about. By contrast—

Mr Davey: It was not in his report.

Gareth Baynham-Hughes: It was not in his report. By contrast to the 2016 one-off target that has been in place since 2006.

Q455 Barry Gardiner: Finally, under the Warm Homes Act, Secretary of State, you have a statutory obligation to do all that is reasonably practicable to eliminate fuel poverty. In the light of end of tax-funded support for energy efficiency programmes and the closure of Warm Front, how do you respond to those fuel poverty organisations who doubt that you are meeting that statutory obligation?

Mr Davey: I think we are meeting it because you have mentioned things that are being phased out but you have not mentioned things that are being put in. We have a lot of policies, such the Warm Home Discount that I have mentioned to you, which is targeting supporting support on 2 million of the lowest income consumers, £130 directly off bills, and that is 1 million of the lowest income pensioners directly targeted through that. That is new. That was not there before. Of course, we replaced CERT with the Energy Company Obligation. We think it is a better approach. It has elements that directly focus on fuel poverty with the affordable warmth element, the carbon saving communities obligation, and the second part of it, the other chunk, is the carbon saving obligation. Many people in fuel poverty will also benefit from that. We assess that slightly over half of the Energy Company Obligation will be going to the fuel-poor. Again, that is a policy. We could talk about that we think the Green Deal will be particularly helpful for the fuel-poor, but there are other measures as well.

I have to say that a full analysis of what we are doing for fuel poverty, even before we get to the refreshed strategy that I have mentioned to you, shows that we are taking that obligation very seriously.

Q456 Sir Robert Smith: In identifying those that could best benefit, it is becoming more difficult, as a lot of houses have already been dealt with, to identify those who are most in need of support to tackle fuel poverty because of the data-handling of the situation. Is there anything that can be done to overcome data protection and privacy rights so that help can be more efficiently targeted?

Mr Davey: The current legislation only allows us to share pension credit data and we have been doing that very successfully in the Warm Home Discount Scheme I have just been talking about with Mr Gardiner. Energy suppliers are able to use that data to deliver further help, for example energy-efficient measures, to low-income pensioners. They can use that data for a number of things to help tackle fuel poverty.

There are obviously other data sets that could be used and we have certainly not ruled out expanding the use of data-sharing, but I think you could immediately imagine that we would have to go about that with some caution and some sensitivity. People do not necessarily want their data shared widely and we need to respect that. I think there would have to be a full, proper debate in Parliament before we decided to expand the use of data-sharing. It has to be an option, but there are reasons why people are nervous about that.

Q457 Sir Robert Smith: Does universal credit help in any way, because it tries to capture data on a household basis and obviously it is the household that is being affected by the condition of the home?

Mr Davey: It may well, but I think it is relatively early days in universal credit. I think we should wait a little while before that system is bedded in. The DWP might think it is a step too far in their IT system's redevelopment for universal credit to want us to use it for this purpose. As I said, we are not against and certainly have not ruled out expanding the use of data-sharing and that might be an option.

Q458 Sir Robert Smith: I suppose another way around it is to try to identify areas that, on the whole, would benefit from intervention because obviously it is much more cost-effective to intervene on a community basis than on an individual household basis. Help could be targeted at those areas that are most likely to benefit. Would that be a more—

Mr Davey: Part of the Energy Company Obligation—in fact I tweeted when I came into office—was to create this carbon-saving communities obligation. It is worth £190 million per year and it does just what you described. We do have within the ECO an area-based approach to tackling fuel poverty.

Sir Robert Smith: Does it have any specific targets or directions towards those in the off-grid, rural area?

Mr Davey: I think, from memory, about 15% is ring-fenced for rural areas.

Gareth Baynham-Hughes: That is right.

Mr Davey: Yes, there is that.

Q459 Sir Robert Smith: You have already identified that you see the energy companies as an important part of delivery because of the efficiencies that could come from that. Do you not think there is a role for other trusted intermediaries like social landlords to market or encourage people to take up these schemes? Your energy company coming and saying "I am here to reduce your bills" is still a counter-intuitive thing for the consumer to accept.

Mr Davey: I am keen for lots of players to encourage take-up of these schemes and to show people that these are schemes they should take up. We announced last week that we are spending just under £1 million to create what we call the Big Energy Saving Network. This is not some new bureaucracy, you will be pleased to know. This is using existing advisers from the CAB, from the national energy advisers and so on, to use that network that exists already, that we have seen in cases like Big Energy Saving Week, and to create a permanent network of advisers who get support with training and materials who can co-ordinate better so they can be a voice to promote these types of schemes and help people know what is available. Of course, anyone can ring the Energy Saving Advice Service on 0300 123 1234.

Q460 John Robertson: Secretary of State, earlier you replied to my question while I was ranting at you about my written questions to Mr Fallon. I get the feeling you probably thought they were just a fishing exercise, but these questions were anything but a fishing exercise. I do want to know what kind of money this Government and previous Governments invested in the Big Six—I want the figures for last five years. I have a horrible feeling that they have, shall we say, used the figures to mask their actual investment in this country and what they say they have invested. The fact of the matter is I think part of the investment is money that the Government has invested and probably you should be taking the credit for it, rather than them. I want to know what kind of money we are talking about because it is very difficult to work out their books at the best of times, but at least I can do an audit trail of your money to them and spent in this country.

Mr Davey: Maybe I can look at the written answer you received and the question to see whether or not we could be more helpful for you, but the issue is this: there will be some investments that these companies will have made that are completely private-sector transactions with no Government support and no consumer support. There would be no impact on consumer bills. For example, I think it was npower which invested in the Pembrokeshire Gas Plant, which was slightly over £2 billion, and that would not have received any Government support. There will be investments that are completely unrelated to any support systems for low carbon. Of course, there will be those energy companies who invested in onshore wind and offshore wind and so on for whom the consumer, once those plants are generating, will be contributing under the ROC system and the contracts for difference, but that is quite a transparent process. People can see a wind farm. They know who owns it. They know the regime, so it is not something that is—

Q461 John Robertson: If it is transparent, I would not have thought it would be difficult to get the figures. I have some figures from the Library and they tell me that through the RO obligation we have given them £251 million, which was up from £176 million the previous year. I can track some money, and there is £10 million that has been given from the Rhyl Flats Offshore Wind Farm. There are figures there, but I have a horrible feeling that they are using part of these figures to make it look—because they come to this Committee, as you are, and they tell us all about the money they have invested in this country, and yet, when I ask them the question, "How much of that investment came from financing from the UK Government", they cannot tell me. Call me a cynic, but I just think they are trying to hide something here. If somebody can't tell me a figure and I know it is there and they know it is there and they will not say, then they are hiding it and I would like to know why.

Mr Davey: I would have thought they would be able to explain that, if they had made an investment in, say, an offshore wind farm, the Government scheme enables them to get money from consumers over the lifetime of that scheme because that cost is passed on. I can't answer for them, but that is quite—

John Robertson: You have told us a figure.

Mr Davey: Indeed, but what I am saying is it is not directly Government money going in to pay for the wind farm. Okay? It is money that will come from consumers who pay when that wind farm generates, because that energy is slightly more expensive than from other sources.

Q462 John Robertson: Exactly, and take the credit for it and also perhaps hide an expense somewhere, which allows you not to pay the tax you possibly should be paying. There is a possibility, and I want to make sure that I am trying to help them and make sure that what they are doing is above board and correct. I just have a terrible feeling that the letter I had from npower would probably be a carbon copy of the letter that was received from

Starbucks, which was a carbon copy of the letter received from Amazon. These companies need to be looked at.

Mr Davey: I completely agree that companies who are not transparent about their tax affairs need to be held to account by their shareholders, their customers and the jurisdictions that they operate in. The Prime Minister and Deputy Prime Minister have been extremely strong on this and at the G8 and at the EU level the UK is leading the charge for greater transparency in tax. The Prime Minister recently wrote to some of the UK territories to try to make sure that they are being supportive of what the UK Government is trying to achieve. I think there is a real, strong direction of travel to make sure that companies pay what they are supposed to pay and I completely support that.

John Robertson: As we do.

Q463 Chair: There is a consensus that improving the thermal efficiency of the housing stock through energy efficiency measures is a particularly cost-effective way to tackle fuel poverty, but minimum efficiency standards in the private rented sector are not due to be introduced until 2018. Could that not be brought forward?

Mr Davey: One of the benefits of setting regulation a few years away is it enables people to prepare for that and invest ahead. Of course, there is always an argument about whether a particular year is the right year. Of course, there is bound to be discussion. There is quite a lot of literature and empirical evidence that, whether it is a car manufacturer and having to have cleaner emissions or whether it is, in this case, energy efficiency in the private rental sector, giving people some time to prepare for that is a sensible way to make sure you can achieve that without unintended consequences and without negative effects. I am not saying that there is a science to choosing 2018. I am just saying that giving a bit of time for adjustment does make sense.

Q464 Chair: Just moving on to ECO to finish up with, your Department's projections suggest that ECO will take up to a quarter of a million households out of fuel poverty, but that is only a relatively small proportion of the estimated number of maybe 3 million or 4 million fuel-poor households, and only around 50% of ECO will be directed at low-income households. Given that ECO targets only a small proportion of fuel-poor households, do you have any plans to expand the scheme?

Mr Davey: I think we have an agreement on how we take that forward to the end of the spending review. Decisions beyond that will not be made immediately. We want to learn from this scheme. It is in its early days. I think there are many good signs already from the scheme and I think we just need to get some more experience. For example, there are parts of the scheme that we have designed that did not happen before, for example the brokerage, to make sure there is greater transparency in prices and that other players beyond the Big Six can come in and deliver so there is more competition in the market. We have taken powers in the Energy Bill to require more transparency from the Big Six who have these legal obligations upon them to make sure we get the proper cost information, because that will help us learn to make sure we are doing things in the most efficient way. I think we have to learn some of those lessons before we decide what comes next. I personally think the Energy Company Obligation should have a long life, but we should obviously see if it can be improved in the next iteration.

I would say, though, Chairman, that it is not just the Energy Company Obligation that we are using to tackle fuel poverty. There are lots of measures that are not just directed at the fuel-poor but will help the fuel-poor; the tariff reforms we have talked about. I come back to collective switching, because one of the reasons I set up the Cheaper Energy Together scheme was to try to promote collective switching and energy co-operative purchasing—one of the ways I did that was to say that you could only get funds from Government to help you set up these schemes if you showed that your scheme was going to include the fuel-poor. There is quite a bit of evidence that the fuel-poor were among the group who switched least and, therefore, were not benefiting from competition in the market. By trying to tie these energy-purchasing co-operative schemes to the fuel-poor was one of our ways of trying to get extra help to the fuel-poor.

I have already talked about the Warm Home Discount. There are quite a few measures there and I think, while I agree with you that energy efficiency is the best way of doing it, which is where you started from, I do not think we can simply do it that way, not least because it is going to take time to refurbish the whole housing stock of the UK, even if you are just focusing on those houses that are the most thermally inefficient. We have to help people with bills. We have to help people get the best deal from the market.

Q465 Chair: The energy companies are disputing the Department's assessment of costs of ECO. Do you have any comments on that?

Mr Davey: They have been disputing that for some time. It is interesting to note that, even in these early days, some of their new figures are rather closer to ours than closer to the ones they were publishing before ECO started; so the direction of travel is in the right direction. I hope that when Green Deal is in its next stage that will also help reduce costs and, of course, we are going to learn. No one wants to see ECO delivered at a high cost. Of course not. When I talk to the industry, I say, "Well, give us your ideas about how we can achieve these objectives", which we have set out very clearly, "to reduce carbon, to improve energy efficiency of housing stock at a lower cost". Doing it this way enables us to use competition and to use the learning from the scheme so we can achieve that.

I would hope we can come in at not just our estimate of £1.3 billion per annum on these measures, but maybe even lower. That would be an achievement. If you look at the CERT scheme, I think I am right in saying that the analysis of the CERT scheme was that it came in lower than the Department had estimated, even though the companies at the time had said that the Department's estimate was too low. These are early days in ECO, but I think the evidence is coming our way. Gareth, do you want to add to that?

Gareth Baynham-Hughes: I am not sure there has been a final evaluation of the costs of CERT and CESP, but certainly anecdotal evidence would suggest that fears that it was vastly more expensive than Government estimates were not true. I think different supply companies would have slightly different perspectives, but in broad terms you are absolutely right.

Q466 Chair: I recognise that it would not be an enormous surprise if some of the anxieties expressed by the industry turn out to have been unfounded. Just to clarify, if the cost did exceed what you estimate, does that mean those costs would feed straight through to consumer bills?

Mr Davey: That is certainly possible and that is one of the reasons why I take them very seriously. We are trying to reduce all the pressures on consumer bills, particularly the ones we can control. We have looked at this incredibly carefully and if there are more things that we can do we will do them.

Q467 Chair: The Energy Bill Revolution Campaign suggested that the receipts from the carbon price floor could be used to fund energy efficiency measures. Do you think that is possible?

Mr Davey: If it is a theoretical question, Chairman, "Is it possible", I think it is probably possible. Whether it is likely I think is really the question. I do not think it is very likely. Successive Governments and successive Chancellors have taken the Treasury view in these types of things that hypothecation is not the right way to go. There are some fights one has in Government because you think you can win them and there are the fights that you think, "Maybe that is quite a tough call". While I have great sympathy with the way the Energy Bill Revolution make their arguments and one can understand the power of their argument, they are up against decades, if not centuries, of Treasury orthodoxy on hypothecation.

Q468 Chair: Just on the point about the carbon price floor, it is, I suppose, now absolutely clear that it is simply a tax-grab by the Treasury. It serves no environmental purpose. It is a distortion in the market that penalises sections of British industry compared with businesses in the rest of the EU and there is no energy or climate change policy justification for it at all, is there?

Mr Davey: That is a little unfair. I think—

Chair: Only very slightly.

Mr Davey: It does give some signals for investing in low carbon technologies, but the way I see the carbon price floor is it shows how important getting Europe's carbon market working is. Clearly, if the carbon price from the EU emission trading system was producing a price above the carbon price floor, we would not even be having this debate. That does show that carbon prices are important for long-term investment. If you talk to CCS developers, if you talk to renewal developers and new nuclear vendors, they see that getting a good carbon price will help us make this transition to a low-carbon economy in the most efficient way.

While I understand some of the concerns about the carbon price floor, it is one of the reasons we have introduced proposals to compensate energy-intensive industries from the indirect costs of the EU ETS and we are getting responses from the Commission on those proposals while we have done that. I do think the long-term approach is to reform the EU ETS. If I make take this opportunity, Chairman, I think we need to see the European Parliament voting on back-loading before the summer recess and saying yes to back-loading. It is quite a mild reform of the EU ETS, but it is an essential first step and I was deeply disappointed that Parliament voted—by a small majority, but nevertheless it was a majority—against back-loading recently, and I and my Department and colleagues are trying to put the case for back-loading and for getting Europe's carbon market working properly.

Q469 Chair: I am sure on that point you would have the very strong support of this Committee and I certainly regret that decision as much as you do and regret the fact that some of my colleagues were responsible for it. Thank you very much for your time. We look forward to seeing you again before the summer recess. We have a date, I think, in July to have a more general debate, although you may think we have strayed slightly beyond energy price reform. We look forward to straying even further in a few weeks' time.

Mr Davey: I am sure my Minister of State is looking forward to his appearance before you.

Chair: Thank you very much.