



**STANDING COMMITTEE
OF
TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
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**PROCEEDINGS
DAALTYN**

**ECONOMIC
POLICY REVIEW COMMITTEE**

Manx Gas

HANSARD

Douglas, Tuesday, 12th April 2022

PP2022/0059

EPRC-MG No. 3/21-22

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Members Present:

Chair: Mrs C S B Christian MHK
Mr J R Moorhouse MHK
Mr J C Wannenburgh MHK

Clerk:

Mr J D C King

Assistant Clerk:

Mr C E Phillips

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Standing Committee of Tynwald on Economic Policy Review

Manx Gas

*The Committee sat in public at 1.33 p.m.
in the Legislative Council Chamber,
Legislative Buildings, Douglas*

[MRS CHRISTIAN *in the Chair*]

Procedural

The Chair (Mrs Christian): Good afternoon and welcome to this public meeting of the Economic Policy Review Committee. I am Claire Christian MHK, Member for Douglas South, and I Chair the Committee. With me are Mr John Wannenburg MHK and Mr Jason Moorhouse MHK.

5 Could we please ensure that all mobile phones are turned on silent or off so we do not have any interruptions, and for the purposes of *Hansard* I will be ensuring that we do not have two people speaking at once.

EVIDENCE OF

**Mrs Jo Cox, Chief Executive, Islands Energy Group,
and Mr Aidan Baglow, Managing Director, Manx Gas**

Q69. The Chair: Thank you for coming to join us in the Committee today. Please could you advise your name, role and how long you have held the position?

10 **Mrs Cox:** I am Jo Cox, CEO of Islands Energy Group. I have held the position since 2nd August 2021.

Mr Baglow: My name is Aidan Baglow. I am Managing Director of Manx Gas. I have held the position since October 2021.

15

Q70. The Chair: Thank you. We are going to move straight into the questions. The first section we are going to talk about is the customer rebate, background and context.

Why are you currently unavailable to offer a customer rebate mirroring Government's own recent contribution?

20

Mrs Cox: The rebate was offered when we were in a voluntary agreement. That rebate was offered at £93 as part of the voluntary agreement, which went to Tynwald and was declined. Therefore, we moved into a regulation price-freeze framework proposition and we went through a consultation and, as you know, a couple of weeks ago it was approved in Tynwald to move into a regulation framework as of 1st April 2022.

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Q71. The Chair: Thank you.

30 In a press release on 16th October 2020, Manx Gas issued a statement that in agreement with the Isle of Man Government on a proposed new gas tariff, natural gas customers and small business customers would get an average refund of £93 on their 2020 bill and also their 2021 bill. This was subject, as you have said, to Tynwald's approval. Can you explain why imposed regulation is different to voluntary regulation and thus meant Manx Gas has not paid this refund?

35 **Mrs Cox:** Yes, absolutely, the voluntary agreement ... the £93 was based on a different framework to the regulation framework that has been implemented. On 1st January we went into regulation consultation, so we price froze. If the voluntary agreement had been approved in Tynwald and moved into that new voluntary agreement we would have put prices up a lot earlier, so that £93 would have been paid but a price increase would have come into effect because the price started increasing from August – we would have been operating under the old voluntary
40 proposed framework. Therefore we did not implement a price increase until October, therefore protecting customers from a £320 increase, which would have been implemented under the recommended voluntary framework. The regulation framework operates under a different percentage profit return, and therefore we did not implement that price increase until 1st April 2022. Therefore, we as Manx Gas took a subsidisation at £7.4 million as a result of delaying that
45 price increase. Actually, it is in the interest of the consumer because the consumer would have got a £93 rebate but a price increase would have come in a lot earlier to the value of up to £320 increase per annum. So the regulation framework is better for the consumer because it delayed that price increase.

50 **Q72. The Chair:** Did Manx Gas receive advice that this offer of a rebate on the basis of Tynwald agreeing to voluntary regulation was actually legal?

Mrs Cox: I cannot answer that question. I am not aware, because I was not party to those conversations, I am afraid.
55 I am not sure if you know?

Mr Baglow: Sorry, Mrs Christian, could you repeat the question?

60 **The Chair:** Yes, of course: did Manx Gas receive advice that this offer of a rebate on the basis of Tynwald agreeing to voluntary regulation was actually legal?

Mr Baglow: I can confirm what Jo said, I was not part of those decisions. At the time, those decisions were made by the then CEO who, of course, is not in front of us at the moment to answer that question.
65

Q73. The Chair: Would you be able to supply that information to the Committee afterwards?

Mr Baglow: Yes, we could.

70 **Q74. The Chair:** Thank you.

Recognition of the historic excess profit levels under the previous regime appear to be the main reason for your offer of the backdated rebate. Is this true?

Mrs Cox: I cannot answer that question because I, again, joined on 2nd August and was not party to those previous conversations, so I cannot talk to the past before then.
75

Q75. The Chair: The Government's own recent £58 rebate appeared somewhat delayed in coming. Did Manx Gas have any role in this delay?

80 **Mrs Cox:** I can talk you through the actual timeline for that rebate with the MUA. We reached
out to Treasury in October. Treasury confirmed a meeting with us on 8th November 2021. We met
with Treasury on 15th November 2021. We shared all calculations for the proposed rebate by
7th December. Ministers agreed the rebate by 20th December. A meeting was held between the
MUA and Manx Gas for discussion of the rebate on 10th January. The MUA shared the proposed
contract with us on 1st February. Manx Gas fed back to that on 4th February and therefore we
85 confirmed the final form on 8th February and paid the rebate immediately after that.

Q76. The Chair: Thank you.

90 This Committee has also heard from Mr Barry Murphy, a campaigner and utilities customer
representative. He spoke of the perception of fairness and that Manx Gas could redeem both its
customer reputation and community standing if it honoured the paying of historic rebates. How
do you respond?

95 **Mrs Cox:** Back to my original response, we could repay that rebate of £93, but what we have
actually done is subsidised the price increase not being implemented to 1st April by £7.4 million,
which works out at £320 per customer subsidisation based on the volatility in the market. So,
actually, again it is better for the consumer that we did not pay that rebate because we have taken
a greater hit on the subsidisation of commodity increases.

100 **Q77. The Chair:** So in lieu of the rebate contribution, what else can you do for customers by
way of rectification?

Mrs Cox: We have moved into a regulation framework as of 1st April. Therefore, any previous
conversations regarding the rebate are null and void.

105 **The Chair:** Mr Wannenburgh, do you have any additional questions?

Mr Wannenburgh: No.

110 **The Chair:** Mr Moorhouse, do you have any additional questions?

Q78. Mr Moorhouse: In terms of the decision to use this money for other things, at what point
did that happen?

115 **Mrs Cox:** We did not make a decision to use it for other things. The voluntary agreement was
rejected when we offered that £93. We then moved into a price freeze mechanism where we
were unable to respond to the market volatility. Therefore, what we are saying is under the
voluntary framework we would have responded to those conditions a lot quicker. Actually, what
happened was we delayed those price increase effects. So it was not a conscious decision; it was
because we were operating under the new pricing regulation framework that was set.

120 **The Chair:** Thank you.
Mr Wannenburgh.

Q79. Mr Wannenburgh: Thank you.

125 Manx Gas has sponsored various initiatives in the past, including a TT race team and
community events such as the Great Manx Run and the Isle of Man Awards for Excellence. Could
this money have been better spent on a rebate?

Mrs Cox: That was a long time ago. We have not sponsored any such events for some time.

130 **Q80. Mr Wannenburgh:** Forgive me, was there not a Great Manx Run last weekend?

Mrs Cox: That was a charity event, so we did not fund it in any way.

135 **Q81. Mr Wannenburgh:** And you did not go to the Awards for Excellence recently?

Mrs Cox: We went to the Awards for Excellence, but that did not cost us anything. We went because we were nominated, rather than us actually funding it. We did not fund it.

140 **Q82. The Chair:** When was the last time you funded a community event?

Mrs Cox: The last community event we attended was the Excellence Awards.

Q83. The Chair: Funded, I asked.

145 **Mrs Cox:** We have not funded any events for some time.

Q84. Mr Moorhouse: What about the Christmas events in Castletown and other towns around the Island that were paid for last year and agreements in place to pay for in the coming year?

150 **Mrs Cox:** Sorry, which Christmas events are you talking about?

Q85. Mr Moorhouse: The ones that relate to 3FM, the festivals of Christmas lights switch-on, and things like that.

155 **Mrs Cox:** I can come back to you on what investment was made on that. It was minimal. I can reassure you that we are not spending a lot of money on events. We will spend the minimum, such as £500 etc. I can confirm the exact amount, but it is not thousands of pounds. It certainly will not be to the value of £7.4 million, which is what we have protected our customers from.

160 **The Chair:** Thank you.
John.

Q86. Mr Wannenburgh: In June 2021, Manx Gas advised customers it had become carbon neutral by spending on carbon-offsetting credits. Could you advise how much this exercise has cost?
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Mrs Cox: I do not have that information to hand, but I am happy to provide it after this meeting.

Mr Wannenburgh: If you could, it would be excellent.
170

Q87. The Chair: Thank you. We will move on to profits and reinvestment. From 2011 to 2016, did Manx Gas ever exceed the 9.9% profit cap?

Mrs Cox: I do not have that information.
175

Mr Baglow: I can answer that, if you do not mind, Mrs Christian.

The Chair: Thank you, Aidan. Please go for it.

180 **Mr Baglow:** The agreement itself had a recovery mechanism built into it. Part of that mechanism involved if there were any under- or over-recovery it would be paid back through a

regulatory credit mechanism, which is shown on customers' bills. So in the event of the business over-recovering at any time it would then be credited back, and it was credited back over a three-year period, which was in the existing 2010 agreement with the Office of Fair Trading.

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Q88. The Chair: Thank you. Was this reported to the Office of Fair Trading under the old regime?

Mr Baglow: It was, yes.

190

Q89. The Chair: Could you try to advise how many times this occurred during this period?

Mr Baglow: The regulatory adjustment was an annual event. What would happen is, whether there was any under- or over-recovery, it was turned into an amount per kilowatt, which was listed on the gas bills at the bottom as a regulatory adjustment. From that, every year an agreement was made with the Office of Fair Trading based on provision of management accounts, provision of statutory accounts and all the other information required under that 2010 agreement. A pence per unit would be agreed then, which would be the regulatory adjustment on that Bill. That was always at the determination of the Office of Fair Trading and I believe it was with the oversight of Treasury too.

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200

Q90. The Chair: How long did it take, on average, to return any moneys to consumers on lower tariffs?

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Mr Baglow: It was a three-year period. The amount was split over three years to make sure that if there was any under- or over-recovery there was not any adverse impact on customers. That was part of the terms of the 2010 agreement.

210

Q91. The Chair: Has Manx Gas considered temporarily reducing its profit cap at this time of unprecedented consumer crisis, or did they?

Mr Baglow: Referring to the 2010 agreement? The 2010 agreement was exactly that. It was an agreement between the Isle of Man Government and Manx Gas at the time, and with the oversight of the Office of Fair Trading. The rate of return from that agreement was determined by the OFT and by Treasury at the time, so it was within the remit of all parties to adjust that at any point, giving the other party notice.

215

Q92. The Chair: Could you just tell me are you planning a return of any kind, be it a dividend, a bonus or a capital return to your shareholders for 2022?

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Mrs Cox: We are not.

Q93. The Chair: CURA has recommended a certain profit level. Are you confident it is sufficient to allow for some reinvestment in the Island going forward?

225

Mrs Cox: We are. We have calculated, going forward, that we will be able to invest in better services for our consumers.

230

We will be moving into energy management, as opposed to just gas. You have heard me refer to this before. Actually, for me, one of the problems that we have is that we are not looking to the future enough, so we will be moving away from carbon neutral and we will be stating a very clear position on a net zero road map and we will be overlaying a very clear technology road map as to how we reinvest into the Island for renewable energy and what stepping stones we plan to take to get us there. We will be very transparent about that road map. We will create very clear proof

235 points through the years and we will update everybody publicly on how we are tracking along
those proof points as to how we are creating a better future for the Island. That is our new plan
going forward.

Q94. The Chair: Thank you.

240 Do you feel that the current cap as settled between yourselves and CURA is sufficient to enable
you to offer with certainty continuity of service and supply?

Mrs Cox: We absolutely do believe that, yes. We have worked very closely with CURA and if
things change, if the market changes and investment is higher than expected, that is what the
review cycles will be for. So the July and the December review cycles under the regulation
245 framework will allow us to put forward very clear rationale should any of those metrics change.

Q95. The Chair: In a statement you made, Mrs Cox, to the local press on 4th April, you said
that the company needs to make a profit to allow for any further shocks that could come down
the pipeline. Could you clarify that if the market prices increase the profit will absorb the increase
250 and that customers will not see another price increase, as this does seem to be what you were
implying?

Mrs Cox: What I was implying at that point was that we have to make ... The question was ‘Do
you think you have to make a profit, and can’t you actually, over the next few months, make no
255 profit at all?’ What I explained is that we have to have a certain level of cash in the bank to be able
to absorb the volatility in the market. If we had not had a certain amount of cashflow in the bank
we would not have been able to maintain supply, because you have to future buy gas in advance.
Outside of that, we need to continue to maintain our infrastructure and our assets to ensure that
we provide a safe supply.

260 You can elaborate on that a little more.

Mr Baglow: Yes, certainly. Just to bear in mind there is often some confusion about the limits
of where our infrastructure sits and where the MUA gas/Government infrastructure starts, but
265 from a Manx Gas perspective we have over 411 km of buried pipeline which we have to maintain
throughout. On top of that, we have all the individual service pipes and metering infrastructure
and we have all the pressure regulation infrastructure. We run a 24/7 gas emergency service
throughout – and that is free of charge to all our customers – where we resolve any issues, either
infrastructural or within customers’ properties throughout. So it is quite a complex infrastructure
and quite a large infrastructure that requires constant maintenance. That involves replacement
270 of aged mains. Even when roads are replaced we look at replacing services and mains within those
areas. Without proper investment we are not able to maintain that level of service. We operate
under a safety case to make sure that we do actually achieve all those requirements as well.

Mrs Cox: During storms etc., trees can come down on our plant. If we do not have sufficient
275 profit in the bank then we cannot quickly rectify those problems.

Q96. The Chair: Thank you. So it is quite a broad aspect in terms of the shock you are talking
about?

280 **Mrs Cox:** Yes.

Q97. The Chair: In your opinion – and obviously you have highlighted that you were not CEO
and you were not around in the last five years – in previous years, the 9.9% profit, do you feel that
that should have been able to withstand the shock that is happening now? Why was that not able
285 to do what is happening now, but yours is for those shocks? If you could explain that.

290 **Mrs Cox:** If you actually look back over the last couple of years, it has not just been the volatility in the commodity prices. We actually have seen revenue decline considerably, just because of commercial properties shutting during COVID. As we all know, we have had a couple of years where a lot of commercial properties have felt the hit of not being able to open during COVID. We had to furlough a lot of staff and we had to reduce hours. We had to make sure that we invested in technology to allow people to work from home, so that we continued to maintain our asset. So actually, over the last couple of years we have not just had the recent hit of commodity prices; we have had revenue halving due to commercial properties not generating and producing as much volume as we normally would be selling from a gas point of view.

295 You have also seen, weirdly, that the temperature has dropped. Recently I mentioned in the press that not only have we seen the fact that volume has gone down in the commercial sector, it has also gone down in the domestic sector because it is warmer. I know it does not feel that way, but actually it is warmer, so the volume of gas that we have normally been selling has also halved.

300 **Q98. The Chair:** Mrs Cox, do you not think that actually there is a coincidence with the fact that prices have gone up and actually people are just switching off their gas? I know you are saying it is temperature, but actually –

305 **Mrs Cox:** Yes, but not to the volume we would expect. It is consistent across all three islands, actually, so it is not just that we are only looking at the Isle of Man. If you look at volume consumption of gas across all three islands we have seen it dramatically change, and that will not just be because people are turning their gas off; it will be temperature related.

310 **Q99. Mr Moorhouse:** There is real fear out there.

315 **Mrs Cox:** There are a few, but we have 24,000 customers. So yes, there are a few hundred customers who are definitely behaving in a different way, but not to the volume that we have seen changing. It is very much temperature related. If you look at temperature in October 2021 versus prior years, it is considerably warmer.

320 **Q100. The Chair:** I think from a perspective of what you are saying in terms of temperature I do understand that, but I do think – and I know that Committee members will agree with me – it is more to do with the fact that people are just scared and they are switching off their gas. That is their decision and it is because prices are high, and the reason it is happening in Jersey and Guernsey and elsewhere is because the same market influxes are happening.

325 Do you understand why Manx Gas customers do not trust this information that you are giving with regard to perhaps the 9.9% and the percentage that you are taking now? If you are saying that this is going to be enough to weather us through this next storm, why should we believe you now over when it was a very much higher cap in the last five years?

330 **Mrs Cox:** I completely understand why people are feeling the way that they are. We have not been a transparent company up until now. I think you will probably notice that since I joined in August I am trying to be much more open and transparent with the information that we provide, making ourselves much more available to people when they have questions. It will take some time for us to regain consumers' trust.

335 **Q101. Mr Moorhouse:** With regard to that transparency, I asked a Keys Question last month about how much money was held in prepayment accounts. The MUA provided the information but Manx Gas refused. How much is actually held in prepayment accounts, please?

Mrs Cox: (a) I do not have that information to hand; (b) we did not refuse. We have very few customers who have pre-pay accounts because we do not have smart meters. We have people

340 who pay in advance on direct debit. Well, actually, let me correct that. They do not pay in advance
on direct debit, they pay as per the bills that are coming through on direct debit. So we have very
high direct debit customers but they do not pay in advance for the gas that they are using, so it is
not pre-pay.

Q102. Mr Moorhouse: And in terms of that money, is it ring-fenced and is it safe? There is a
slight concern that when Manx Gas gets challenged that money may not be safe. There was an
345 issue similar ... [*Inaudible*] stockbrokers and nominee accounts, and that caused real concern.

Mrs Cox: Where it historically will have caused concern is where you are paying more than the
bill that you are receiving. So if you are paying a direct debit for £300 but your bill is only £200,
we are holding the £100. That is not the case at the moment. People are increasing their direct
350 debits to cover their gas accounts, so we actually do not hold a lot of credit. We can come back
with that information, though.

Mr Baglow: There is also one thing to understand: there is a billing cycle which changes
throughout the year. So if the customer is paying a fixed amount per month towards their gas
355 account, during the summer months it can build up a small credit but then in the winter months
there is a small debit. It moves cyclically throughout the year, so at any particular time if there is
a small amount of credit or a small amount of debit on that account, it reflects just the period
every year where the customer uses more energy in the winter and less energy in the summer.

360 **The Chair:** Thank you.
Mr Wannenburg, do you have any additional questions on that section?

Q103. Mr Wannenburg: Yes. Going back to the warmer weather, your response in the media,
do you not think that it was a patronising attitude?
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Mrs Cox: Not at all. In fact, we can provide data that shows you exactly how it has changed the
volume month by month. We have done a three-year analysis so that we can see what is
happening year on year based on the months, and you can see that there is actually a regular
pattern. It was not intended to be patronising; it is actually based on really clear data and analysis
370 that was done over the last three years.

Q104. Mr Wannenburg: Perhaps it could have been communicated more sympathetically or
more empathetically, (**Mrs Cox:** Okay.) because it was tantamount to 'Turn the gas off when you
turn the bacon over,' and there are people who –
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Mrs Cox: That certainly was not my intent.

Q105. Mr Wannenburg: Would you accept that that is how it came across?

380 **Mrs Cox:** If that is how you perceived it, then it will have –

Mr Wannenburg: My constituents have told me that.

Mrs Cox: That was not my intent and I certainly –
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Mr Wannenburg: I accept that, but maybe –

Mrs Cox: But if you received it that it was unsympathetic, then that is your perception.

Mr Wannenburgh: No, it is my constituents' perception.

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Q106. Mr Moorhouse: With regard to that, do you actually have any direct relationship with customers in terms of ...? You mentioned a small number of people who were struggling. What sort of links do you have with those people? All three of us have had constituents who have raised this as an issue. Is it coming through to you, or is it being blocked, with you being at the top of the company?

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Mrs Cox: Not at all. I receive regular reports on a daily basis from our customer services team, where we get feedback. We have something called 'Rant and Rave', where we see immediate customer feedback. I get daily reports on the calls that are coming through, the sentiment from customers, what people are worried about, what people are pleased about. We see those reports on a daily basis.

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Mr Baglow: Just to put that into perspective as well, we have received over 16,000 bits of customer sentiment from that, and it is quite a clever piece of software that actually analyses all those and gives information, breaks down where they think it is on payment methods, whether it is on how the person answered the phone, how their issue was dealt with. We have a dedicated customer support team which is specifically focused on helping people with their payments and any payment issues. That is a dedicated part of the business and that is their sole role.

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Q107. Mr Wannenburgh: Have those people been trained?

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Mr Baglow: They have, yes.

Q108. Mr Wannenburgh: To deal with people who are financially burdened and cannot meet those obligations?

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Mr Baglow: They do, yes, and we also have some specific training for specific things like dementia awareness and stress awareness. Our customer teams go through it. They engage with lots of private bodies – things like Blind Welfare and stuff where people have very specific needs – so they are much more attuned to those so we can react appropriately. Our customer teams also go out and meet these organisations on a regular perspective. In fact, we have one for Age Concern coming up in a few weeks, where we can go out in the community, sit with them and engage with them face to face, rather than on the telephone.

420

Mrs Cox: And we have two people in the business who are dedicated to comfort checks. We do proactive analysis of people's accounts, and where we can see something is not in line with the normal average costing we will go out and visit that house to find out why that bill is appearing to be higher than the average. We often find that it is insulation, windows, really simple things, and we make recommendations on those comfort checks.

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430

Mr Baglow: And that is a free service we offer to our customers. One of our technicians will go out, who has been specifically trained through the Energy Saving Trust, and they will make recommendations on how people can use their heating, how they can reduce their bills, and even if it is non gas-related, as Jo just referred to then – like fabric sides of the building, like insulation – we will make appropriate recommendations. Typically, we might go out and find a customer has not had proper controls fitted when they had their boiler fitted many years ago. Small changes they can make like that can significantly reduce their consumption, and we are doing that within their home. We have done several hundreds of them since we introduced that service. It is still there as a free service for customers. Even for small business – we go to people and we

435

440 recommend on their usage on that front. We try to be as open as we can. As I said, there is no charge to it, there is no lead to get in there; it is just a case of 'What can we do to help?'

Typically, there is a gap between people's understanding of how much heating they use compared with what actually their controls are set to, particularly the setting of temperature controls – overheating your house or heating your house when it is empty. Often behaviours can go, which can actually make a big difference to people's consumption, and what we try to do with these free comfort checks is address those whilst we are in the customer's home. We believe that is a really helpful service.

The Chair: Thank you. It will be great to watch and see how that develops.
450 John, would you like to continue with section 4 now?

Q109. Mr Wannenburgh: Certainly.

We are going to go on to corporate culture and customer focus. How is your staff morale at this time, given the negative press, distressed customers and challenging trading conditions?

455 **Mrs Cox:** It is safe to say that they are receiving a lot of calls at the moment from customers. On your customer sentiment question previously, actually the customers who are calling are very understanding because they recognise this is a global crisis and it is not specific to the Isle of Man. So the calls that they are receiving have not been really aggressive, which they could be at this time. The sentiment is still quite good because we are actually trying to help as much as we can to spread those payments, which customers are really grateful for. Again, we are looking proactively through people's accounts and where we can see something that is standing out as very odd we are proactively contacting those customers.

460 Our employees know that our intent is as positive and proactive as it possibly can be, but you can understand that updating on a 58% increase is difficult for staff, but we try to communicate on regular, monthly town halls where we explain the rationale and the reasons behind these changes. We are keeping people up to date if there is anything that we can see coming down the road. Up until now it has been very quiet, and then all of a sudden these price increases come in and the staff are informed at the same time as the public. So we are trying to be as forward and proactive as we possibly can. The reason we have put Aidan in as a local MD is to make sure that he is walking the floors and making sure staff are supported, but it is a difficult time for everybody.

Q110. Mr Wannenburgh: Indeed, yes.
475 How has the corporate culture changed at Manx Gas since the departure of the senior management?

Mrs Cox: I will ask you, Aidan.

480 **Mr Baglow:** I suppose there is one answer to that: very significantly.

Q111. Mr Wannenburgh: Significantly?

Mr Baglow: Yes.

485 **Mrs Cox:** For the better, I hope!

Mr Baglow: We have reset the culture and values of the business, which is key to our underpinning of what we do as a business. As Jo has mentioned before, we have really changed how we engage with our staff, how we engage with team members, how we support them as well, how we help them grow within the business and within the community. It is like a breath of fresh

air at the moment, to be quite honest, if I can be as bold as saying that. It is nice to see. I think our employees benefit from it and, as a result of that, our customers do as well.

495 **Mrs Cox:** I think up until now, as well, there has been no future vision or intent. We have brought in Alex Herschel as a climate change specialist and we are going to actively create working groups across all three islands around how we put forward a very clear **net zero** road map. It is very different to carbon neutral, it is very clear intent, and we are overlaying the technology on top of that net zero road map. So, instead of the tail wagging the dog and saying 'Right, we are going to produce all this new technology – Oh, and by the way, we hope it is going to produce net zero,' we are doing it the other way round, so we are saying 'How do we get to net zero and what technology do we need to bring in to make that real?'

500 Our employees are actually finding that really engaging, because it is future-proofing their careers, it is giving them exciting new technology for us to talk about, but it is also reinvesting in the Island that they live in. So I think, for me, that is one of the big cultural changes that we are seeing – we are engaging them in that net zero road map and saying, 'Does this sound okay? Let's do some customer focus groups, let's test what proof points we need to do.' So we are engaging everybody across the company in it. Rather than hierarchical deciding at the top and then saying 'This is what we are going to do,' we are engaging absolutely everybody to think about that technology road map.

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Q112. Mr Wannenburg: Okay, well, that sounds exciting. I look forward to that being rolled out.

In your presentation to Members on 20th January 2022, you stated there was a need to change the relationship and dialogue with customers (**Mrs Cox:** Yes.) and put customers at the heart of the business, and also to be fair, open, honest and supportive. How do you hope to do so?

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Mrs Cox: The first point is that we have to make it easier for you to do business with us. At the moment, I think we are quite old fashioned. We need to bring our technology into the new world, where you can submit a meter reading by just taking a picture and giving it rather than phoning in, or emailing in. We need to put the control into the consumers' hands so that we actually can allow you to pay your bills online, look at whether you are getting an estimated bill or whether you want an actual bill. So, first of all, it is basics. We have to say, 'How do we make it really easy to do business with us?' I think you can probably agree, if you look at our website today, it is old, it is clunky, it is really difficult to use, so the first thing that we have to invest in is a great new web platform. Everyone is used to having an app in their hand; you should be able to see all of the data at the tip of your fingertips. So that is the first step.

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The second thing that we need to do is bring in a one-stop shop of energy services. At the moment, we can do these wonderful comfort checks and say, 'Right, okay, you need to put insulation in, you need new windows – this could help your energy efficiency – we could put controls on your thermostat,' but then we leave you with that information and we do not make it easy for you to effect the change in your home. People find that really worrying, because they do not know how to put insulation in their home, which tradesman to go to, and they worry about cost. So actually then we walk away saying, 'Here are all the problems,' but we do not give you a solution. The second stage of the web platform and the app in the palm of your hand is allowing you that one-stop shop of energy management.

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The first thing we will launch is Smart Home technology. If you look at my background, you know I have come from British Gas, and we launched Hive. We will be bringing that into the market next month, which will allow you to control your heating from the palm of your hand. The reason that is important is because you will not be heating your home unnecessarily. Whether we like it or not, the temperature is up and down. Say you have left your heating on and you go out for the day, and you realise it is, all of a sudden, 20° – you can actually turn your heating off, so you are not warming your home unnecessarily. Putting that control in the palm of your hand allows you

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545 to control your energy. Things like that are really small things we can implement now, but again it changes the way that you control your heating bills. It is really small things like that that we are going to start to bring in that will deliver value to the consumer, rather than just gas.

Q113. Mr Wannenburgh: How far away is that technology?

550 **Mrs Cox:** We are launching it in four weeks' time.

Q114. Mr Wannenburgh: And launching it in four weeks, obviously you will be communicating it to all your customers?

555 **Mrs Cox:** Yes, there will be a full press release. It is a subscription service, so it is affordable; you can just add it on to your bill. It means that our engineers will come in and install it for you and you will be able to immediately control your heating in the palm of your hand. Aidan inferred we have a lot of customers – up to 24,000 customers – who just have on/off heating control.

560 **Mr Baglow:** And it is surprising what a difference these controls can make. There is a big education piece around this, making sure that people get the most out of their controls, but also understanding the new tech, which is great, but also understanding that the traditional customers as well, the ones who ... There is a whole marketplace out there of people who perhaps would not understand these controls, and we are also still mindful of them as well, which is why we also have a vulnerable customer list as well, which makes sure that ... and we do check in with them. Our customer team checks in with every one of them once a year. We have a personal call where we ring up and check how they are doing, if there is anything we can help with; sometimes there is nothing, sometimes we can make a little tiny change to support them as well. So it is just recognising that there is a future energy management system here which is really important and valuable for customers.

570 **Mrs Cox:** And will be here very soon. It can save customers up to £130 per year just by putting in a smart thermostat. We will also be launching smart radiator valves, so you can control heating in separate rooms.

575 **Q115. Mr Wannenburgh:** A smart thermostat – is that going to cost the customers?

Mrs Cox: You can take a subscription, so we will spread that. It is a low-level subscription service, but it can save you up to £130 a year minimum.

580 **Q116. Mr Wannenburgh:** Okay. Not every consumer is online. What are you going to do about the digitally disenfranchised?

585 **Mrs Cox:** We continue to support those people as we do today, so those people who do not want to move to online we will continue to support them with our customer services team. What I am hoping is that by moving those people who want to move online, we can dedicate more proactive time from our customer services team, who are quite reactive at the moment. What we will do is pivot those customer services people to being much more proactive, so they will be doing a lot more analysis of people's accounts.

590 **Q117. Mr Wannenburgh:** How many people in customer services?

Mrs Cox: Good question.

Mr Baglow: On the direct customers, there are 12 people.

595 **Q118. Mr Wannenburg:** Twelve people for 24,000 customers. That is enough, is it?

Mr Baglow: Yes. (*Interjection by Mrs Cox*) The calls are directed to the right people with the right skills to give the customers the right information, whether it is an assisted payment, whether it is passing on some information about a meter reading or whether it is asking a query about a bill or moving house and all the typical queries as well, and within those teams we have specialists who can take things offline. But yes, the turnaround of calls of staff are measured to make sure that people are not kept waiting unnecessarily. Within both of those teams they are focused on specific areas to make sure that they support customers as best we can.

605 **Q119. The Chair:** I am just going to bring back – because it really interested me – the net zero. When do you expect to be at net zero – just for our clarification?

Mrs Cox: We are working through to target in line with the Government agenda of 2050. There are quite a lot of stepping stones that we can go to now, though, that will start to realise really good ambition towards net zero, so I think we are hoping to launch that clear, transparent net zero by Q4 this year, so September-October time.

Q120. The Chair: That was my next question.

615 **Mrs Cox:** Yes! There is a lot of work going into it at the moment, because in order for us to say when we are going to get there, we have to know where we are today, and that is a lot of work to understand where we are as a company today. That work has not been done before, so we are fast-paced doing that as we speak.

620 **Q121. The Chair:** And will that road map be made public?

Mrs Cox: Absolutely, and we will put very clear proof points as to how we are tracking towards that, so that we can then update you regularly to say, 'Okay, we said, we did, we are here,' rather than just announcing this wonderful net zero road map and then not updating you for some time. So we are planning to keep that narrative ongoing.

Q122. The Chair: Fantastic. We will move on to section – I am sorry, do you have one more question?

630 **Q123. Mr Moorhouse:** Thank you very much.

With regard to the vulnerable people you mentioned, will checks be carried out before the gas is turned off? I was aware of a constituent last year whose gas was turned off and she had actually got children. Could you explain how that should be avoided, please?

635 **Mrs Cox:** Yes, I am aware of that individual. We had been in regular conversation with that individual, who was just under £3,000 in debt. We had proactively contacted that individual on many occasions, requested a payment plan to be put in, agreed that payment plan and they defaulted on that payment plan month after month, and eventually cancelled their payments to us altogether and refused to pay.

640 We do have multiple checks before we ever get to the point where we would turn someone's gas off. You can talk to that.

Mr Baglow: Yes, certainly. The vulnerable customer register that we have is a voluntary register. We call it the priority customer one, because sometimes if we call it 'vulnerable' people stay away from it, often the people who are most in need of it. What we offer on that is a one-on-one service. We ask them if they want to share any information with us that we can help them

with. It may be that they have poor eyesight and they have a password system or something in place for when our engineers or our meter readers go round. So little bits that we can support them in, particularly if there are any weather changes – if we have cold weather coming we do ring round these customers going forward. But with the specific example, I do not believe they were on our vulnerable customer register –

Mrs Cox: They were not, no.

Mr Baglow: – because that is checked regularly.

Q124. Mr Moorhouse: Just in terms of that sum of £3,000 and your plans in place for the payment plans, would that be seen as an exceptional amount? Are they on much lower figures and are they manageable figures? When you are in that situation and you have a plan, it has to be realistic and doable.

Mrs Cox: It has. There is a big difference, for me, in someone showing positive intent and paying us for the gas that they are consuming, and refusing to pay, cancelling direct debits and not engaging in conversation. I think they are very different things. I think customers who come to us and have a reasonable conversation and honour the agreement that we have had in writing and call us if there is a problem are very different to someone who racks up a huge amount of debt and then refuses to pay or engage. I think they are very different things.

Q125. Mr Moorhouse: Just in terms of new customers, is that charge of £200 still in place? It is rather a lot of money when you are getting your first house or your first apartment. And in terms of that money, does it get returned to the customer, please?

Mr Baglow: It does. That is no longer in place. The deposit was in place for people with no history with the business. Generally speaking, if people would sign up to a direct debit or any sort of fixed or variable plan, there was no requirement to pay that as well.

Q126. Mr Moorhouse: But without a plan the payment would still have to be made?

Mr Baglow: After 12 months obviously any previous deposits would have been returned to the customer's account.

Mrs Cox: But that is not in place now.

Mr Baglow: That is not in place now.

Q127. The Chair: Thank you, Jason.

We will move on to section 5, cost of living crisis and response. If a consumer is in significant debt and Manx Gas are mindful of personal circumstances – obviously, in light of the last questions – are cost-spreading options sufficient? Is there training to call handlers and signposting to other local or third sector support services to assess those in crisis?

Mrs Cox: Yes, absolutely. Again, back to my original point, we can proactively look at people's accounts and we get an early flag when we can see somebody is in trouble. Actually, you will find that it is the vulnerable customers who are less likely to call in, because they are embarrassed or they are worried and concerned, and they almost go the other way. So what we do is proactively look for signs across accounts and we proactively contact them when we can.

If we are not getting contact from those customers or we are not getting a response, we do signpost to the charities that we work with on a regular basis. The reason we push our customers

700 to those individual charities is that, for me, it is like marking your own homework – who are we to
decide who gets help and who does not? – so we work with our independent charities so that they
can have a more comfortable conversation with trained people such as the Samaritans, Age
Concern etc, and they can then go in and assess the situation and come back to us with a
recommendation. I do not think it is right that we decide who gets support and who does not, so
we work with those charities to help us.

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Q128. The Chair: I am not sure whether you can divulge what sort of level it is that you would
intervene, but obviously a lot more people will be reaching that level quicker with the price
increase. Have you changed your parameters, or have you seen a different uptake in that?

710 **Mrs Cox:** We have certainly seen a bigger uptake in people calling and requesting payment
plans. I think in last quarter of 2020 we had around 89 people requesting a payment plan; it is
nearer 300 for the same period of time. So whilst it is not considering the percentage versus the
number of customers we have, it is not ridiculous, but we have seen the increasing requests in
payment plans.

715 Actually, we look at accounts where there has been a significant increase in their individual
monthly cost to say, ‘Actually, it has flagged up that you have gone from say £200 to £400. Is there
anything that we want to do proactively to see why that has happened?’

I do not know if you want to talk about any other metrics that we use.

720 **Mr Baglow:** Certainly with the fixed payment methods we have seen a big increase in those
coming forward because that is one of the simplistic ways we can offer people to help budget
their bills. Traditionally, again, heating is weather related generally – you tend to get, obviously,
much bigger bills in the winter than in summer – and spreading the cost over a full 12 months,
rather than having a bill shock during the winter months after a cold period ... For example, during
725 this period now would be the ... It is a two-month billing cycle, so the bills coming through now
will have been from earlier on in the year through some of the colder weather. With a fixed
payment plan you can spread that throughout the year and it does help people budget a lot better.

730 **Q129. The Chair:** Obviously, you are talking about quite a large increase – 89 people to 300
people are looking for a payment plan. Would you agree that there are mental health impacts
with rising energy costs? Are you seeing that on the telephone?

735 **Mrs Cox:** I think there are mental health impacts with the cost of living increase, actually – you
are seeing it across food – and that is, I think, the bigger problem here, that it is not just one thing,
it is everything. Our entire cost of living is increasing. It is worrying, yes, absolutely.

Q130. The Chair: The Committee has written to you previously on this, but for the record how
many times have you stopped supplying customers in 2020-21?

740 **Mrs Cox:** In 2020 we ceased supply for 101 people, and in 2021 we ceased supply for 191
people.

745 **Q131. The Chair:** Thank you. Also for the benefit of our listeners here, it costs £57.14 plus VAT
to reconnect customers following a disconnection and it costs Manx Gas £58.06 to reconnect
customers for an external meter and £375 for internal meters where access cannot be gained. In
the current economic climate, with huge price rises and extreme financial pressures on
consumers, how can you justify this charge and have you thought of removing this levy to ease
the burden on consumers?

750 **Mr Baglow:** What I would say is it is a discretionary charge; it is not charged very often at all. The only time it will be charged is if there is a refusal to engage. As Jo mentioned earlier on, we got nearly all of our customers along that route. If they have a problem and they are engaging with us, no such charge is made. In fact, if they are engaging with us and supporting a payment plan it will not end in a disconnection. The only time those people have ended in a disconnection ... And bear in mind some of these numbers will be the same person several times.

755 **Q132. The Chair:** As you have said, this is a discretionary charge and the charge is not applied if the customer enters into a payment plan or has been referred by a charitable organisation or is genuinely financially in difficulty. Could you confirm, this policy that you have just described, is it available for customers to see on your website and do you advertise this – obviously, bearing in mind keeping in line with openness and transparency that you are trying to portray?

760 **Mr Baglow:** We do not currently put that policy on there because, as I said, there is a discretionary charge we put on there. We are always looking at ways of improving our communication with customers, and that is something we can certainly look at and maybe we can improve it for customers, making a clearer road map. Ultimately speaking, we want people to be able to say, 'I know the path I can go down – I need some help, I need some support,' and know that that support is available.

770 **Q133. The Chair:** Taking the reason for waiving a reconnection charge – i.e. genuine financial difficulty – how do you measure this and, most importantly, do you not agree that a majority of your customers are currently in financial difficulty? Thus would it not be better to cancel this charge altogether under the current economic climate and in the spirit of your customer service and putting the customer at the heart of your business?

775 **Mr Baglow:** I would agree with that. It is something we are looking at, at the moment, our whole strategy regarding revenue assurance and how it comes through. We try to be as respectful and as supportive as we can, and I believe our customer support teams do a very good job of managing that for customers because it is a difficult time.

780 As Jo mentioned earlier on, if somebody has gone to the trouble of getting in touch because they are in payment difficulties we want to facilitate that as best we can and we want to take away the fear from it as well, because we understand it is not just gas, it is other pressures. Whether you are a gas customer, an oil customer or electric, with all the other cost of living increases there are pressures all round on people's purses and this is just one very small part where we can help.

785 **Q134. The Chair:** Thank you.
On 29th March, Manx Gas announced it would be reducing the discount offered to customers who pay by direct debit from 2.5% to 1%. Could you explain that? What was the reasoning?

790 **Mrs Cox:** Yes. When we looked at the price increase we had to make a decision: how do we make it even and fair? A lot of our customers are not on direct debit, therefore what we decided to do is reduce the discount offered to the people on the direct debit and make sure that we reduce the impact on those people who are not direct debit, so we spread it fairly across all customers. Actually, if you look at the UK, you do not get any discount at all for paying by direct debit; in fact, you get charged if you are not on direct debit. So we just decided that we would reduce the percentage and spread that percentage across, so that we reduced it to 58% rather than it being higher.

Q135. The Chair: How many of your customers are paying by direct debit, do you know?

800 **Mrs Cox:** I thought that was going to be a question. I do not have that to hand, do you?

Mr Baglow: I do not have it exactly. I can follow up with the exact number.

805 **Q136. The Chair:** If more customers went on direct debit, would you say then that you would have to put the price increase higher?

810 **Mr Baglow:** One thing just to add with direct debits: the direct debit discount only applies to the cost of the gas, not the standing charge or VAT or anything else. Before, it used to be 2.5%, dropping to 1% now, and because of the increase in the amount of gas used in the tariff as part of it now, in monetary terms it is quite similar, so there is still a benefit to going on direct debit because it is still a reasonable discount – even 1% of the cost of gas used is still a reasonable amount on that bill. So obviously we would recommend every customer to take advantage of the schemes that are there and get the discount.

815 **Q137. The Chair:** The rising cost of living is hurting low to middle earners. Have you considered a new social tariff for qualifying households?

820 **Mrs Cox:** Yes. Recently, you approached me and said could we review our tariffs; we have taken that on board. Aidan and I are going through a process at the moment reviewing all our tariffs. We have the all-Island tariff, which is historic. What we are doing is taking this opportunity to try to keep a simplistic tariff structure, and we will be making a recommendation to our board to put forward new proposed tariffs on that basis – so a social tariff, a small business customer tariff and seeing if there is a better way of us doing a domestic tariff that is more flexible without moving to the framework where you had 55 different tariffs, which was very confusing. We are going to take
825 this opportunity before winter to see if we can refresh our tariffs and make it much more flexible for our customers. So we have taken that on board.

Q138. Mr Wannenburg: Could I just ask you: that was at the initiative of Claire Christian?

830 **Mrs Cox:** Yes.

Q139. Mr Wannenburg: So management did not take that initiative yourselves?

835 **Mrs Cox:** We will have been getting there. As you can imagine, we have been reacting to how we respond to a 173-page regulation framework and how we respond to the commodity prices going up and down.

I came in on 2nd August; there was much to do. We absolutely had on our road map that we would be reviewing all propositions full stop, which is why we were looking at bringing in Smart Home and trying to do as much as we can. And so we absolutely had it on the agenda, but this
840 price increase has accelerated that up on that agenda. We would have got there.

Q140. The Chair: It is great news that you are looking at different types of tariffs. You have just mentioned it will be here before winter. Are you discussing it with stakeholders – or who are you discussing this with to come to that agreement?
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Mrs Cox: We originally will just go through and recommend our own proposition framework and then I will present that to the Ancala board when we have the detail ready for them to sign off.

850 **Q141. The Chair:** And an approximate time? Are you looking at it before September?

Mrs Cox: We will be hoping to launch it by September.

Q142. The Chair: What is the Manx Gas Priority Care Customer Register, and could you outline what support this offers exactly and to whom?

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Mr Baglow: We alluded to some of that a little bit earlier on, but ultimately it is a voluntary register. There is no qualification, we do drill down into it; if a customer wishes to be on it, they can be on it. Sometimes it might be people who just feel a little bit vulnerable, sometimes it can be people who have a disability, perhaps sight or hearing, or other potential issues. What we try to do there is make sure that we meet their needs. Sometimes, as I mentioned before, our customer teams will actually ring up once a year and check in with some of these customers. Just before the last price increases some of our team rang round the entire vulnerable customer list to check in with them, to make sure they were okay. Sometimes that might have been the first person they have spoken to for quite a period of time. So we do not qualify it; we just put it out there for customers.

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We have quite a decent number of customers on there now and we look after them. If we have any supply emergencies in an area or if we have any planned outages, we make sure we contact them first, so if we have a mains replacement in an area we will contact those customers to say, 'Anything we can help you with while we are doing this work?' Also, if we need access to the read the meter or something and it is a special requirement, we make sure we can work around them. But it is quite soft. It is very people focused because we do recognise that it is the more vulnerable end of our community that we are supporting there.

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The Chair: Fantastic.

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Jason, you have a further question, haven't you?

Mr Moorhouse: No, it is after reconnection, please.

The Chair: Okay.

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Do you have another one?

Q143. Mr Wannenburgh: You just alluded in your answer a few minutes ago to gas being a small part of the cost of living, yet since October 2021 the price has gone up almost 85%, nothing like anything else. Given that you provide a core utility, perhaps that is a little disingenuous, would you say?

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Mr Baglow: Well, I did not refer to it being – if I did, I do apologise – a small part. It is part of the cost of living, which is going up, and energy costs as a whole are going up. Oil costs have gone up considerably; they have nearly doubled. We have had a similar pence-per-kilowatt increase for our electricity. Electricity has gone up 5.1 pence compared with 5.7 pence for gas, so there has been a significant increase in all energy costs. It is a very challenging time for all consumers at the moment.

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Q144. Mr Wannenburgh: I totally accept that, but it is not a small part, it is –

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Mr Baglow: It is not, no, it is a very big part of it and home energy – not just gas but all types of home energy, whether it is lighting, heating, cooling, whatever it may be, it is a necessity for people to have these services.

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The Chair: Thank you, John.

Do you want to move on to section 6?

Q145. Mr Moorhouse: Just in terms of the reconnection issues, you spoke about 292 people being switched off over the last two years. In terms of those people, do you actually have detailed conversations with them? And what is the make-up? Is it distressed customers? Or do you have a large number of people who are making the most of the lack of a Consumer Credit Act and see this as an opportunity to move on and not pay your gas bill?

Mrs Cox: Yes, it is always our last resort to disconnect a customer. We never want to disconnect a customer – to reassure you. The people we disconnect are people who are disingenuous in their intent on paying.

To give you an example, one of the customers who reached out to me had thousands of pounds of debt, emailed me and said, ‘I am not paying you because I am moving home in two months anyway.’ For me, that is very different to someone who calls me and says, ‘I really cannot pay and I am really worried about heating my home.’ They are very different.

If you look at the people, as Aidan said, they are usually the same people. They are often repeat offenders who will move home and move home and they never pay their gas bill, so they are very different. It is always our last resort to disconnect somebody.

Q146. Mr Moorhouse: Thank you very much.

Back into the key questions, section 6: could you expand on Manx Gas’s relationship with Manx Utilities regarding the import and wholesale aspects of the import and supply, please?

Mr Baglow: Yes. I suppose the infrastructure is probably a good place to start, because the gas networks run and owned by Manx Gas are all supplied from the MUA network. So if I go from the RAC and work my way back in, it is probably the best part of it.

Obviously, there is an interconnector between England and Ireland which serves Northern Ireland and the Republic of Ireland. There is an interconnector off that, and all those are owned by Bord Gáis. There is a sub-sea interconnector which then comes onshore by Glen Mooar, which is owned and operated by the MUA. There are two pipelines then: there is the high-pressure pipeline that supplies Douglas, which is a transmission one owned and operated by the MUA; and then there is a section of intermediate pressure pipeline – one goes up to Ramsey, one goes down to the south of the Island, and one to Peel picking up Kirk Michael and Ballaugh along the way – and these are all owned and operated by the MUA. At the end of those intermediate and high-pressure pipelines, obviously one of them has the power station at the end of it in Douglas, but there is what we call a pressure-reduction station, which then is where the custody transfer goes to the Manx Gas networks, and from then Manx Gas has owned and operated the 411 km of gas networks and pipelines that feed through.

So the MUA owns and operates that system on behalf of the taxpayers of the Island and, of course, the MUA also supplies our natural gas because we buy through their systems.

Q147. Mr Moorhouse: And in terms of that relationship, does it work well? We have heard today in terms of the past and the present. Is this something you would agree to in 2022, or is it still something you would remould if you could?

Mrs Cox: We are in regular engagement with the MUA and the dialogue is open.

We obviously have recently tried to hedge and were perceived as a credit risk, and therefore the hedging was declined. We would like to continue to hedge. The reticence around it is that it is, in effect, free credit because they buy forward on our behalf. If we hedge elsewhere, which we are going to be doing, there is collateral that we need to put forward of several million in order to do that. Therefore, we are going to have to take a different option to hedge and buy forward via Macquarie or different banking options, as opposed to from the MUA, which comes at a cost.

Q148. The Chair: Could you just clarify? You said your hedging was declined – declined by whom?

955 **Mrs Cox:** The MUA declined to forward buy on our behalf in October time.

Q149. The Chair: This October?

960 **Mrs Cox:** October 2021, yes.

Q150. The Chair: October 2021. And did they give the reasoning?

965 **Mrs Cox:** Because we were perceived as a credit risk. As you can imagine, forward buying gas is millions and millions of pounds. At that time, they were concerned that we would not be able to pay that back and therefore we were determined as a credit risk, so the hedging was declined.

Q151. The Chair: So you are now looking elsewhere to hedge?

970 **Mrs Cox:** We are hedging elsewhere, which means that we have to put forward significant collateral, whereas previously we did not have to put collateral via the MUA.

Q152. Mr Wannenburg: So why didn't you put that significant collateral, which you were going to invest for somebody else, to the MUA?

975 **Mrs Cox:** That was never an option from the MUA. That was not proposed.

Q153. The Chair: With regard to the information you submitted in a written answer on hedging – which we will not divulge, at your request, due to commercial sensitivity – it is clear that there could have been more opportunities to hedge. Could you expand as to why you hedged significantly lower in 2021 and 2022 in comparison with 2017-20, bearing in mind the cap was 80%?

985 **Mrs Cox:** Yes. Our hedging policy was implemented in 2012. I am reading this because obviously it was pre me. Our hedging outlook is for 12 to 15 months ahead, with a cap of 80% of the daily volume. The reason for that is that if you buy too much volume you may as well throw your money out of the window because you have bought gas that you did not use. The target is budget value or lower. Hedging in 2017-20 was at an average of 69% of the volume used. The impact of hedging over this period was a cost of £½ million, 3% of the gross value of the gas. In 2021 and 2022 to date, hedging has been at 40% of volume and has delivered a saving of £2.2 million, 10% of the gross value of the gas. Detailed information has been provided.

Q154. The Chair: This is the information that you asked to not be divulged here. You now have done that, (**Mrs Cox:** Yes.) so we can discuss it.

995 Regarding the hedging policy that you have just mentioned, is it reasonable to say then the £2.2 million or 10% at 2021-22, if you had hedged the full cap of 80% it could have been £4.4 million, 20%? Is there reasoning behind ...? It is not like you are averse to being more than 40%. You were at 69% earlier in the previous years. Why was there less?

1000 **Mrs Cox:** It might be more helpful if I send in a table as to why we got to the 40%, because it is quite detailed. We analysed the 12 months' volume versus temperature and, actually, if you look, the pattern says that you should not ever go over 50% based on the current temperatures and volumes that we are using, because in effect you then buying gas that you are not using. It is

probably more beneficial if I send you that table, because you can see how we got to the analysis of the 40%, but it is really detailed.

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Q155. The Chair: Do you think if you had hedged more proactively this would have had an impact on the price increases over the past six months?

Mrs Cox: Most definitely.

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Q156. The Chair: So what lessons have we learnt from that?

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Mrs Cox: It is a bit of a gamble, hedging. I think hindsight is a wonderful thing. I think when we were deciding how much we were going to hedge we did not understand that the volatility of the market would go to quite the levels that we saw, unfortunately. If you have a looking glass, you might be able to predict what is going to happen going forward, but hedging is always a gamble. You can always reflect back at data you now have at the tips of your fingers and say, 'I should have hedged 49%, 50%.' We were only dealing with the market conditions we saw at that time. Actually, there were multiple things that happened thereafter, outside, with storms and floods, that no one could have predicted.

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So I say most definitely we could have hedged more. Would it have been significantly more? No, it certainly would not have been double. Could we have gone to 50%? Potentially.

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Q157. The Chair: There were significantly low prices at the beginning of COVID. Do you understand, or can you allow us to understand, why a lot more hedging was not done at that point when the price was so low?

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Mrs Cox: The prior year was 69% hedge versus the 40% hedge. You only hedge, generally, up to six months in advance, so irrespective of the pricing at the beginning of COVID we would not have been able to hedge that far forward anyway.

Q158. The Chair: Can you advise why you only hedged 35% of your volume in August this year?

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Mrs Cox: Yes, we can send you that detailed analysis as to how we came to that percentage.

Q159. The Chair: At any point since 2017 – and I say 2017 because there is no data before that, as you have previously told us – did you stop hedging, or did the hedging policy stop at any point?

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Mrs Cox: I am not entirely sure. I would have to check that information. It is pre me on 2nd August, so I am getting that information from our CFO, who was pre me.

The Chair: Thank you. If you could let the Committee know.

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Mrs Cox: Yes, absolutely.

The Chair: Do you have a question on hedging? (**Mr Moorhouse:** No.)
Do you have a question on hedging? (**Mr Wannenburg:** No.) You do not. Okay.

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Q160. Mr Moorhouse: Thank you very much.
How bad did things get last October? You mentioned the MUA had identified you as a serious credit risk. How close were you to calling in the administrators? Was it that serious?

Mrs Cox: No, we were not at the point of calling in administrators – there are always multiple things that we can do prior to getting to that point – but it was a difficult time. We were losing

1055 significant money month to month, so the regulation framework was imperative. If the regulation
framework had not been approved, then it would have been very difficult for us.

Q161. Mr Moorhouse: Did you offer yourselves for sale at that point, or was that something
that has not been considered?

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Mrs Cox: We did not offer ourselves for sale at that point, no.

Q162. Mr Moorhouse: And that is not something that has been on the table in the last five
years?

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Mrs Cox: Everyone is always up for sale, for the right price, if you are private! The cold, hard
reality is if someone approaches you and offers you a lot of money to buy you, then you have to
be open to those conversations, but those conversations did not actively happen over the last ...
not since I have been here, anyway.

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Q163. Mr Moorhouse: Thank you. In a written answer to the Committee you suggest the
standard practice is paying the bills at the end of the following month. Presumably, last October
things got slightly more stressed. What happened at that point? And are things now back on track?

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Mrs Cox: Yes. We had 30-day payment terms with the MUA. We reached out to the MUA to
ask if they could help us and move to 90-day payment terms. That was declined.

Q164. Mr Moorhouse: And what was happening with your other creditors and suppliers at
that point?

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Mrs Cox: We buy all of our natural gas through the MUA.

Q165. Mr Moorhouse: But in terms of other supplies and things that you require, they were
paid within the 30-day period?

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Mrs Cox: They are all different payment terms, so they were paid within their contractual
terms, yes.

Q166. Mr Moorhouse: Thank you very much.

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At a recent briefing to Tynwald Members, you suggested that you were going to meet up with
the Chief Minister and the Treasury Minister to discuss current market challenges. Have those
meetings taken place, and did they meet your expectations?

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Mrs Cox: We did not meet with the Chief Minister. We did meet with the Treasury. Those
conversations were open and transparent. I do not want to divulge the conversations that we had;
they were private conversations.

Q167. Mr Moorhouse: In terms of CURA, it is a new body regulating a single company on the
Island. Is it doing what you expect it to do? And is it comparable with regulators in other areas
where Manx Gas are operating, or is it something quite new and different?

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Mrs Cox: It is very much in line with the standard regulation framework. We have been working
collaboratively and well together to get to the point we have got to. Time will tell as to whether
the regulation framework does its job. It certainly, for us as a company, provides stability. It allows
us to gain hedging requirements. As you can imagine, banks would not touch us with a bargepole
because we were not regulated, there was not any stability in our future, no one knew what was

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1110 happening, we could not react to market conditions. That regulation framework coming in on 1st April allows us to move into BAU and operate under a very clear framework agreement, it allows us to refinance our debt – which we could not do because we were in a price freeze – and it allows us to hedge, so it absolutely protects us as a business for the next five-year period.

Q168. Mr Moorhouse: So, in terms of those statutory regulations, that was the key turning point?

1115 **Mrs Cox:** Absolutely.

Q169. Mr Moorhouse: And in terms of when Tynwald made the decision, you believe we made the right decision to support you going forward?

1120 **Mrs Cox:** A hundred per cent. It would have been very difficult for us as a business should that decision not have been made.

Mr Moorhouse: Thank you, Chair.

1125 **Q170. The Chair:** Thank you.

Just out of interest – because you seem very pro the regulations that have been imposed, as opposed to voluntary regulation – do you feel that Manx Gas customers are definitely going to get better prices and better service now under a regulated agreement, as opposed to a voluntary –?

1130 **Mrs Cox:** I think what it gives them is independent analysis that we are doing the right thing as a company. For me, the regulation framework is a good thing because it offers that transparency that we talked about – our intent – at the beginning of the meeting. For me, it puts a body in the middle that analyses our accounts and says, ‘They are operating in a fair way, in a necessary way to be able to maintain their infrastructure.’ So I think it does the right thing there.

1135 From the point of view of doing the right thing for our consumers, that is our job as a business. We should do that. Irrespective of the regulation framework, we should do better by looking to the future, by always improving our services. So we should be doing that irrespective of the framework, and I do not think the framework will dictate that. What it does do is give transparency and that independent view on behalf of the consumer.

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Q171. The Chair: Do you think it should have come in sooner?

1145 **Mrs Cox:** I would have liked it to have come in sooner, yes. It might have meant that the 58% was not such a big price shock because actually it meant we would have not been responding to the market conditions. Unfortunately, the framework coming in when it did meant that we could not hedge, we could not refinance our debt and we could not do all of the things necessary to try to reduce the impact of the 58%. But we are where we are. These things take time. It would have been better to take time and get it right than rush into something that is going to be part of our business for five years.

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Q172. The Chair: In your mind, when would have been the key moment, for the best effectiveness, to have actually moved to regulatory?

1155 **Mrs Cox:** The reality would have been, realistically, August or just before we came into the winter.

Q173. The Chair: No sooner than that?

1160 **Mrs Cox:** The big volatility in the price started racking up from August, really, and it was in Q4 that we saw the massive impact. The commodity price increasing at the peak that it did, during peak supply, was the worst thing that could have happened. If that had happened during the summer, the hit would not have been felt so badly, but we actually make most of our profit in that small window, so actually we lost, because it will not be recovered and it will not be backdated. Therefore, the impact on our business was huge because it was at the worst time.

1165 **Q174. The Chair:** Thank you.

How has Manx Gas, as part of the Islands Energy Group, responded to the current volatility in the global energy market?

1170 **Mrs Cox:** The only thing we have been able to do is, obviously, put the prices up. What we have been doing is managing our costs across the business as best we can, to make sure that we are not spending anything unnecessarily. We are only investing where we absolutely need to invest, because the infrastructure needs it or we need to invest in a new web platform so it is easier for our customers to do business with us. That cost has not actually been spent until we are sure that the regulation framework is in place, so we are now able to invest in the future services for our consumers, but we have limited costs wherever we possibly can.

Q175. The Chair: That is good to know.

1180 An International Energy Authority report in 2020 found that the gas industry faces the challenge of balancing short-term returns and long-term scope to operate; society demands energy but also emission reductions. How are Manx Gas responding to this?

Mrs Cox: For me, it starts with what is our intent around that net zero road map, because you cannot really have that information until you know what you need to do as a business.

1185 We should be doing more around future renewable energy. Up until now, we have not had a vision or a strategy on that, so that net zero road map becomes really critical for us to make the right decisions as to where to invest and how to invest. All these things take a lot of research and development. But not just that; it takes a lot of different skill sets in our business. We have to look forward to saying how do we bring in apprenticeship schemes and how do we make sure we are bringing skill sets into the Island so that we can start to deliver these new services. We are doing that, but it takes quite a lot of vision, strategy and foundations before you can make critical decisions like that. So it starts with how does it refer back to the climate change agenda that is on Island and how do we create very clear proof points, because it is not just the big stuff; we can do lots of small things on that road map, and that is how we will make our decisions.

1195 **Q176. The Chair:** Thank you.

Moving to greener energy without leaving people behind is an enormous challenge. *The Guardian* reported in late 2021 that many gas industry workers were ready for change, but the industry itself was holding back progress. Do you agree, and could you expand on that?

1200 **Mrs Cox:** I think it is more about how people make a decision about where to invest. I think there is a lot of information about all the different types of supply that we can provide, but there are not any clear answers. So, for me, it is a lot of ... I call it throwing a lot of mud at the wall and seeing what is working, but failing fast. So you see us having those conversations. You have to be a lot more agile, because what we think today definitely will not be the case in five years' time.

1205 So how do we create skill set infrastructure to be able to be agile, so that we are not moving into what I call the technology cul-de-sac. What if we invest in huge numbers of hydrogen boilers and then we realise hydrogen actually was the wrong thing to chase? What we need to do is invest in boilers that can take all different types of supply.

You can probably talk to that a bit more.

1210 **Mr Baglow:** Yes, and the skill set around that as well, because in the UK the former Green Deal that was in place was a bit of a flop for the industry – lots of people investing heavily into that, to take advantage of the move to net zero, and it did not take place. So, particularly from a UK perspective, there is probably a reticence to invest in some of these areas.

1215 Things are changing quite quickly in some areas, but slowly in other areas. Whatever the adjacent jurisdictions do will flow to us. For example, the first hydrogen blends are looking to be in place by 2023 in the UK. As soon as that is rolled out across gas networks in the UK there will be an opportunity for it to go across to Ireland. As soon as Ireland have a decision on that, we will have the opportunity of potentially a hydrogen blend coming into the Isle of Man. There is very little that needs to be done for that to happen. It decarbonises the natural gas supply, or
1220 significantly decarbonises it.

All these things need Government-led initiatives because, ultimately speaking, it is beyond the scope of a small business like us to do that, but what we are making sure of is that we are fully up to speed with what changes are taking place within the industry and we are able to react. And given the technology road map we are looking at putting together to move towards net zero, it is
1225 all about what customers can do now. There is a huge number of things which customers can do to reduce their consumption, reduce their carbon footprint, understand what the true carbon intensity of the electricity supply is at the moment. Obviously the Isle of Man's strategy is all around decarbonising electricity supply at the moment, but even with best endeavours that is not going to be until the mid-2030s. In the meantime, that whole decade and a half, there is a huge
1230 amount we can do to reduce our carbon emissions using technologies that are around there and also embracing the new things that come from the adjacent jurisdictions as and when they arrive.

Mrs Cox: It is two parallel road maps. First of all, we have to put the control into the consumers' hands and we have to make that easy. So on our new website we will have a mini survey that you
1235 can do. It will say, 'Here are some quick-fire recommendations,' but actually, like I said right at the beginning of the meeting, we have to then give you solutions and help you spread that payment. We cannot just say, 'Here you are, here's the problem,' but not offer a solution. We can do that as a low-hanging fruit.

If you think about the British Gases of the world, they are investing millions and millions in
1240 research and development. I do not want us to spend millions and millions (a) that we do not have and (b) when we can just piggyback off those people. So it is about how we engage with the people who ... We are not competition for them, so they will not mind us engaging with them and learning from them as they are doing that research and development, and we should definitely lean into those relationships.

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Q177. The Chair: I think what concerns me is you are talking a lot about doing things online – you have mentioned that several times – and you have also mentioned you have a vulnerable ... or a VIP list of a hundred people. That is not at all the number of people who are not online. How are you actually going to reach ...? I am still confused as to how, especially for an initiative like
1250 this ... You are saying you are expecting people to go online and do that. Are you going to send people into their houses to do exactly that format?

Mrs Cox: Yes, absolutely. We have done an analysis of our customer base, based on profiling, and around 30% of our customers probably definitely will not move to be online, but 70%
1255 definitely have the intent and they are used to behaving in that way. It does not mean that we will forget the 30%, but what it does mean is we can wrap our arms around those people, offer the comfort checks, go in personally and do those consultations in the home, as opposed to doing it online. We will offer both services.

1260 **Q178. The Chair:** Thank you.

Mr Baglow, you outlined that Manx Gas were investigating – you just mentioned, obviously, a little bit about hydrogen – the potential for utilising hydrogen for customers, and that would come in three stages. Can you expand more on that?

1265 **Mr Baglow:** Yes. There are three parts to hydrogen. Most people think of hydrogen as 100% hydrogen, and a hydrogen economy is probably quite a long way away at the moment. It is going to be worldwide led because there are lots of different national and international projects about producing green hydrogen through electrolysis using things like wind generation and storing energy through hydrogen.

1270 But long before that comes in place, there is blending hydrogen within the natural gas supply, a small amount. There are some projects in the UK which are currently ongoing, which blend around about 20% hydrogen within the blends. If that comes to the Isle of Man, existing appliances – in fact, nearly every appliance built since about 2000 – are perfectly okay to burn hydrogen blends; there is very little work involved in doing that. Then the next stage is what we
1275 are engaging in with a lot of appliance manufacturers and looking at their development road map for what we call hydrogen-ready appliances. These are appliances which can be fitted now and will run on natural gas, but when the time comes they can be converted to run either a higher blend or completely hydrogen, as and when that facility becomes available. That way, customers can make the right decision about investing in their own products. So when they are looking at
1280 replacing their boiler in years to come, rather than a boiler that might not be on the wall for very long, they can future-proof that appliance, making sure that it meets their emissions requirements.

Q179. The Chair: Do you currently have payment plans for the boilers that you install?

1285 **Mr Baglow:** We do, yes.

Q180. The Chair: Are they interest free?

1290 **Mr Baglow:** They are, yes.

Q181. The Chair: Do you feel that making them interest free actually hides the cost of profit that you are making on them?

1295 **Mrs Cox:** No, absolutely not.

Q182. The Chair: Do you understand the question?

1300 **Mrs Cox:** Yes. Are we making a profit on the boilers? Yes. Do we think the 0% hides it? No. If they actually go and get an independent quote, it will probably be more, if not in line with us.

Q183. The Chair: I actually meant the cost of profit that you are making. In other words, if the profit that you are making is hidden – obviously, we are talking about your cap and your profit – is it not a way of hiding it by making it 0%?

1305 **Mrs Cox:** Well, our profits are blended.

Q184. The Chair: Okay. Explain.

1310 **Mrs Cox:** Our profits are reported and blended across what is product profit and what is gas profit, and it is a blended profit that is submitted to CURA.

Q185. The Chair: Thank you.

Making use of experienced gas industry staff in the move to renewables would accelerate the transition. Are you considering future opportunities here on the Island?

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Mr Baglow: We certainly are, yes. In fact, our engineers are undergoing training as we speak.

Q186. The Chair: And how many do you have currently?

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Mr Baglow: We have eight engineers at the moment on Island, plus we have a dedicated contractor base we use for a lot of our installers. We have an approved contractor list, whom we are also making sure are upskilled when the time comes.

As energy use changes within customers' homes, ultimately ... Just think of a warm home, rather than the way the energy is provided, whether it is provided by gas, oil, electric or renewables in the future, ultimately speaking, our engineers know customers, they know properties, they know homes, they know how to heat homes effectively. There are a lot of transferable skills on that, so the jump to these new technologies is not a very big step.

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Q187. The Chair: Is there a shortage in the skills right now?

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Mr Baglow: Very much so, yes, right across the industry; not just for the Island but right across the entire heating industry. A lot of people left the industry back in the 1990s and 2000s. A lot of engineers have left the business and there has been a lack of investment in training right across, so the new recruits coming through are not there.

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But ultimately speaking, we have a good core on the Island. We are able to support and grow them. We are investing in an apprentice training programme, so by the time some of these new initiatives come through, those apprentices will be qualified engineers and that investment will be paying off.

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Q188. The Chair: Can you elaborate more on that apprentices' training programme, please?

Mr Baglow: Yes. We are looking at apprentices across the board. We are looking at it from our customer operations side of it and we are looking at it from the whole gas and home energy side of things, training in electronics and certain electricians with regard to the smart heating. Also, we are looking at when the new training facilities come available for renewable things, like heat-pump training and even down to things like solar PV and hybrid systems where they use a combination of technologies. Not every technology fits every property. There is not one solution that fits all, and each individual property needs a different scope on that, so we are trying to make sure we give our engineers the widest scope of training possible to be able to meet those requirements for the future.

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The Chair: Can I ask, Mr Wannenburg, do you have any further questions for Manx Gas?

Q189. Mr Wannenburg: Yes. Those graduate schemes you were just talking about, are they purely for Manx graduates?

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Mr Baglow: They are apprentice training, so we are looking at taking youngsters from the community, perhaps who have just done their GCSEs or their A-levels, training them up over several years, giving them a good basic engineering grounding and then giving them specialities in gas and electrical training, to make sure they cover that full remit.

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The skills of a gas service engineer have changed over the years. If you go back 20 or 30 years, a man with a black leather bag would turn up with a hammer and a few spanners; now, they turn up with flue-gas analysers and all kinds of different specialist equipment to analyse the most

1365 modern tech appliances, to make sure they can get the proper efficiency out of them. It makes it more exciting for the youngsters as well, knowing that new technology is part of it. How we set people to work using mobile technology for planning customers, so we can make a promise on behalf of an engineer without ever speaking to them – all these sorts of things make it a much more attractive industry to work in.

1370 **Q190. Mr Wannenburgh:** And finally, integrity is described as doing the right thing when no one is looking. Do you think Manx Gas has integrity under your remit? And are you committed to putting customers at the heart of your business?

Mrs Cox: Absolutely.

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Mr Baglow: Definitely.

Mr Wannenburgh: Thank you.

1380 **The Chair:** Thank you.
Mr Moorhouse?

1385 **Q191. Mr Moorhouse:** It is possible that there may be an offshore gas source. Is that something you have considered as being part of Manx Gas, working with the ... [*Inaudible*], or is it something completely irrelevant to you?

1390 **Mr Baglow:** The offshore gas – I take it you are talking about the Crogga type of thing? (**Mr Moorhouse:** Yes.) – ultimately is a supply of gas. It is good that it is in the British territorial waters and Manx territorial waters, but ultimately speaking it requires infrastructure to bring it ashore, so whoever is investing in that will obviously need to invest considerable sums to bring it to shore, to get it to the ground safely and connected into any other infrastructure. But ultimately speaking, that would be connected to the transmission infrastructure on the Island and then be part of a normal ... Just like Gas Networks Ireland supplies, there would be a pipeline in from there.

1395 But ultimately speaking, an energy source is an energy source. If it de-risks it, particularly with our exposure to some of the more hostile areas of the world ... Most people talk about the Russian-Ukraine issues at the moment. If there is a supply of gas within those areas, ultimately speaking the market will dictate if that is a viable supply and how it is priced and passed on to upstream suppliers and ultimately available for customers like Manx Gas as a business.

1400 **Mr Moorhouse:** Thank you.

Q192. The Chair: I have one question and this is my last question for you: when is the next time that you will be looking at the prices?

1405 **Mrs Cox:** July.

Q193. The Chair: Bearing in mind that a lot of months have passed and you will be looking at what has been previous, do you see a price increase happening in July?

1410 **Mrs Cox:** It is really difficult to say. I would like to hope not. What I am hoping – and I say this with absolute transparency – is that summer is when demand goes down and that is ultimately what will drive the commodity price down, so if we do no longer have any supply risk ... If you noticed yesterday in the press, we had a whole announcement from Putin that there is a possible supply risk. Guess what happens: the commodity price shifts up because everyone panic buys.

1415 What we need to happen is that stability to happen in the market, so we need to see ... What
we are doing is protecting the business with hedging. I cannot, unfortunately, guarantee that we
will not see a price increase, because what if it goes back up to £6 again? What we are hoping is
that demand goes down and the market stabilises, and hedging will come in and we will be able
to ensure that we do not have to put in a price increase, but I cannot guarantee it.

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Q194. The Chair: How much are you hedging currently, a percentage?

Mrs Cox: I would have to just double-check that, because our CFO put forward our hedging
policy to Ancala and got it approved, and he is not here so I do not want to just confirm it.

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Q195. The Chair: Would you let the Committee know?

Mrs Cox: I will come back to you on that, yes.

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The Chair: That would be great.

Mrs Cox: I believe it was 50% but I need to just double-check that before I confirm it.

Q196. The Chair: No problem at all.

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I would like to thank you very much for coming in today. There has been some intense
questioning, so well done.

That brings us to the end of the prepared questions, but before we close is there anything else
that you would like to mention which we have not asked about?

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Mrs Cox: I do not think so.

Mr Baglow: I do not think there is anything.

The Chair: You are probably wanting to escape!

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Mrs Cox: No. I would like to say that we will be engaging with our consumers a lot more. You
will see that we will be doing customer focus groups etc., so we are more open to feedback on
how things are going – whether people like the new website, what they like and what they are
not liking. We will be driving a lot more transparency and accessibility going forward, and I know
that has not been a thing of the past.

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The Chair: Excellent. Thank you very much.

The Committee will now sit in private.

The Committee sat in private at 3 p.m.