

## **Making a Difference for Consumers Ofgem's Strategy**

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ofgem

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## Who we are and what we do

- Ofgem is the independent economic regulator of gas and electricity markets in GB
- We operate as the National Competition Authority and the National Regulatory Authority under EU directives
- Our role and remit is determined by Parliament (through our statutory duties). We were established by Parliament and we answer to Parliament
- Our strategic vision is to make a positive difference for energy consumers
- Important context that we are an integrated regulator of networks and markets. We have visibility of and responsibility for the supply chain end-to-end
- Consumer protection depends on:
  - A framework for efficient investment that delivers value for money for consumers
  - Effective market monitoring, incentives and sanctions
  - Vigilance and swift action on anti-competitive behaviour, market failure and inadequate customer service

## Energy: an essential service

- A reminder of the big picture
- Energy is an essential service. Everybody uses it and there are no alternatives
- Energy powers households and businesses and makes daily life possible, enabling communications, transport, financial systems, entertainment
- Economic competitiveness, growth and jobs depend on secure, reliable power supply every second of every day
- The physical delivery and control systems behind all this are vast – and complex, comprising critical national and international infrastructure
- Energy must be managed in the interests of consumers. The systems are here to serve consumers and so are the companies
- The regulator is here to make sure the systems and the companies work for consumers now and in the future

## Energy for consumers

- Consumers face more immediate pressures. Trust and confidence is lacking – and consumers don't think the market is fair
- Consumers have seen large increases in prices at a time when household budgets are squeezed and businesses are struggling
- These retail price rises appear to bear little relation to what is happening in wholesale energy markets. There may be good reasons, but the companies do not explain their pricing in ways consumers can understand
- Recent price reductions small steps in the right direction...
- Complaints remain at record highs despite consumer pressure and pressure from us. Customer service is very poor – we want boards to take more responsibility for what happens on the customer front line
- Recent enforcement action shows that companies sometimes cannot deliver energy saving obligations they knew about for years (such as CERT and CESP)
- These are some of the reasons why we have referred the energy market to the CMA

## Energy is changing

- The future will be different. EMR is a significant intervention to reshape the industry
- Older, polluting power stations will close and the focus of the sector will shift decisively to diverse, more localised generation sources, with increased intermittency. Much of that new capacity will be renewables
- More consumers will put capacity in – through solar and other routes
- At the same time, electrification of heat and transport will reshape demand – the industry has to make a massive shift in how capacity is developed and delivered while ensuring sufficient capacity for a wider range of uses
- Disruptive business models in ownership, generation and supply will challenge the physical network and industry governance to be more flexible. The future needs adaptable, resilient networks and swift, responsive governance
- Smart meters and the potential to switch tariffs in real-time will fundamentally alter the relationship between consumers and suppliers. Consumers will move from passive recipients of energy to active participants in the market
- Smarter products and solutions – consumer demand tools and the internet of things – make capacity and security central to home life and to economic activity and competitiveness
- This context of thoroughgoing change requires a core of stability
- Regulators value consistency and stability. Investors perhaps even more so. But regulators also need to adapt as circumstances change

## Our vision

- To make a positive difference for all energy consumers both now and in future we aim to deliver five core outcomes for consumers:
  - Lower bills than would otherwise be the case
  - Reduced environmental damage both now and in the future
  - Improved reliability and safety
  - Better quality of service appropriate for an essential service
  - Benefits for society as a whole including support for those struggling to pay their bills
- We can only deliver what is in our remit to deliver – we cannot solve wider social problems or prevent global price shocks
- We can make sure that consumers who have difficulty engaging with markets – vulnerable consumers – are not disproportionately worse off because of their situation

## How we will deliver (1)

- We have identified six core regulatory outputs that underpin how we deliver:
  - Regulation
  - Competition
  - Standards
  - Partnership
  - Confidence
  - Efficiency
- **Regulation** – We set and monitor price controls for the monopoly networks, and set rules for and monitor competitive markets
- **Competition** – In well-functioning markets, competitive pressures and customer action will drive companies to position themselves by the quality of their offering. Our general stance is to use competition wherever it brings advantages. That includes extending competition to areas still subject to price regulation
- But sometimes competition cannot deliver what customers need, for example where there are no market imperatives to provide a particular service or to serve a particular group of customers
- We will promote effective competition where we can and we will regulate where we need to



## How we will deliver (2)

- **Standards** – We want companies to deliver the standards expected of an essential service and ensure that vulnerable consumers receive the right protections
- We expect companies to treat customers fairly, and to act in a way in which principles-based regulation can eventually replace rules-based regulation. Our Standards of Conduct are an important step in that direction
- Over time we expect to move to a position where we rely much more on general principles of behaviour than on detailed rules
- Does that mean we will get rid of some rules? Rulebooks are often easy to add to but can be harder to slim down. But where principles are effective at driving up standards we may look at opportunities for simplification
- **Partnership** – Our strategy and this event mark the start of a much stronger emphasis on building relationships with our stakeholders
- We work in partnership with consumer bodies, industry and government in an informed and expert way
- We are independent but not isolated

## How we will deliver (3)

- **Confidence** – We build trust and confidence for consumers and investors with a stable, predictable framework and transparent, accountable processes
- We provide authoritative, impartial and accurate data, and use expert analysis to build trust
- **Efficiency** – We work as effectively as possible to minimise the costs we place on consumers and the industry. Our aim is to deliver more benefit for consumers for less money
- We will do more to measure the effective outputs we deliver for consumers
- We have put internal programmes in place to develop greater efficiency
- But our strategy is no sudden change but development and refinement of successful approaches. We know stability is crucial to the cost of investment and to the credibility of regulation
- There is always talk about changes to the regulator’s powers. Our powers and duties come from Parliament – and our strategy is clear that these cannot stay fixed in time. External conditions change and regulation needs to remain fit for purpose
- Those decisions are for Parliament. We can advise government on the potential impacts of any changes but ultimately it is for Parliament to set the direction regulation should take

## Involving stakeholders in our corporate planning

- We want our stakeholders to be involved in our corporate planning, we want to hear your views
- The strategy is the top level, reflecting our aims and aspirations for the next few years. The Forward Work Programme (currently out for formal consultation) is the detailed annual programme for how the strategy will be delivered
- In developing our corporate planning we are, of course, acutely conscious of the resource environment. Our costs are ultimately paid by consumers and like all public bodies we need to make sure we use our resources efficiently
- We want to work quicker and smarter, to make sure we deliver our strategic mission without added costs or delay
- We encourage you to respond to the FWP consultation – and we want your views on how we can implement our strategy effectively, to ensure regulation continues to meet the challenges ahead

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**