

Opening remarks from David Gray, chairman of Ofgem

Purpose of today's event:

- An opportunity for us to talk you through what we see as the key challenges and opportunities for Ofgem and the industry ahead.
- I will also be shortly handing over to Dermot, our chief executive, who will outline some of Ofgem's strategic priorities that form the context for our Forward Work Plan.
- The Forward Work Plan is a consultation - today is also an opportunity for us to get your feedback.
- We will help facilitate the table discussions which follow Dermot's speech. We hope the discussions are lively and throw up some challenges for us.
- We really want to hear what you think about our Forward Work Plan and the direction in which we're headed.
- The deadline for comments is February 15th. We will consider all your feedback and, where appropriate, incorporate your views and suggestions in the final document which we will publish in March.

The energy industry is changing rapidly, and the question of how we should respond is a recurring theme for Ofgem:

- This is the first of several future themed events we are holding this year.
- Later this year we will be holding an event looking at how innovation can help the post 2020 "Future Consumer" engage with the energy market.
- We will hold a separate event looking at how we can harness the benefits for consumers from some of the huge changes we are seeing in the way energy is transported, generated, stored and consumed.
- I hope that you will also be able to attend these.

Before I hand over to Dermot to talk more about the Forward Work Plan, I'd like to offer one final thought:

- Ofgem is a busy place. Separate divisions cover the retail market, networks and the energy system.

- We have lots of highly skilled people working on different, often complex projects across this whole spectrum which you will hear more about today.
- Amidst all the detail, it's important that we keep in mind the principles which should be driving how we develop our policies.
- These principles are set out in more detail in our five regulatory stances, which we also published in December alongside our draft Forward Work Plan.

These regulatory stances are:

1. Promoting effective competition to deliver for consumers
 2. Driving value in monopoly activities through competition and incentive regulation
 3. Supporting innovation in technologies, systems and business models
 4. Managing risk for efficient and sustainable energy
 5. Protecting the interests of consumers in vulnerable situations
- I would encourage you to look at the regulatory stances and provide feedback on them as well as the Forward Work Plan.
 - The stances are not designed to cover every single piece of work we do but they are designed to provide a clear framework for our staff and for external stakeholders who want to understand how we go about our role.
 - I'd like you to keep them in mind today as we discuss our work and ask yourself whether you think these principles are satisfied – and challenge us if you don't think they are.

Now over to Dermot.

Speech from Dermot Nolan, chief executive of Ofgem:

As David has just said, the future is a recurring theme for us at Ofgem.

But we certainly don't have a crystal ball.

The events of the last year would make me even more nervous about trying to predict the future.

Of course there was Brexit and then Trump.

Both of these overshadowed somewhat possibly the biggest upset of them all – Leicester City, at odds of 5,000-1, of winning the Premier League in May.

With apologies to any Leicester City fans in the audience, I can't help but notice that the football club is once again resuming its customary position towards the bottom end of the league table.

Maybe it's an indicator that 2017 may see a return to normality...

Fortunately at Ofgem we work to longer time frames than a football season.

The transformation of the energy system has huge implications for the work we do and how we prepare for the next decade and beyond.

New technologies and innovation have the potential to empower consumers and make the retail market more competitive.

So let me go into more detail about how our work plan for the year 2017-18 fits into this long term vision.

I would like to start by touching on today's retail market.

When I spoke this time last year at this same event, it's fair to say I was expecting more certainty on what the retail market would look like.

The Competition and Markets Authority concluded its two year investigation last June.

We share its goal of boosting competition for consumers.

But questions remain about precisely how to make sure the market is fair, as well as competitive, for everyone.

The CMA acknowledged this dilemma when it proposed a pre-payment price cap for around 4 million.

This price cap, which we will introduce in April, will cut bills by around £80 a year for some of the most vulnerable households who are least able to benefit from competition.

Compared to the rest of the CMA's pro-competition remedies for the retail market, it stands alone as a direct regulatory intervention.

Indeed, the government has been clear that markets in general – whether in banking or energy – should serve all consumers.

And we know that the government is closely monitoring the energy market.

We will continue to work with them to help deliver a market that works for all consumers.

Competition has already delivered significant benefits for consumers.

The growing market share of independent suppliers has forced the large suppliers to raise their game.

Clearly there is some way to go. But we are going in the right direction.

I believe that now more than ever we owe it to consumers to give competition a chance to work.

New technologies, like smart meters or the midata initiative aimed at taking the hassle out of switching, combined with the CMA package of remedies, should help us reach this goal.

Just because we are helping to deliver more competition doesn't mean that we are taking our eye off the ball when it comes to consumer protection.

We will continue to be vigilant over supplier conduct and the customer service they deliver.

Consumers must be reassured that we are looking out for you.

If consumers aren't confident that their rights are protected, how can we expect them to engage in the market.

So let me be clear today: we will continue to monitor the market closely. And if something goes wrong we will intervene early to make sure suppliers put things right.

With the increasing number of energy suppliers, many of whom are very small, and rising wholesale prices, there has been a lot of interest in the sector's financial stability.

In November, for the first time this decade, we activated the Supplier of Last Resort process when we successfully transferred 160,000 customers from GB Energy Supply to Co-operative Energy.

We have had many representations from those who consider we should require companies to meet more significant financial tests both before and after receiving a license.

We are conscious also of the benefits that consumers derive from the competition that new entrants can bring.

So we will review our approach to awarding supply licenses, the financial requirements on suppliers, and how we monitor supplier performance later this year.

It's right that we look at this as a prudent regulator. But it's possible that we will not make any changes following this review.

Suppliers need to do more to reach out to their own customers and help them engage in the market.

We are requiring suppliers to conduct trials to test the most effective ways of engaging their customers and helping them get a better deal.

We will also be continuing our work on the database, another CMA remedy aimed at helping disengaged customers to switch.

Some have dubbed it a "spammers' charter".

I'd like to correct a few myths. The CMA proposed setting up a database but it has given us a large degree of leeway to decide how it would work.

We are conducting trials with suppliers to test which types of communications are more likely to help consumers engage in the market.

For example we will test whether consumers are more likely to respond to a letter from Ofgem outlining better deals tailored to them rather compared to separate letters from individual suppliers.

But we accept there is no point in sending out letters to millions of homes which end up straight in the bin.

We are taking an evidence based approach to our work on the database.

The findings from our trials will inform our decision on how we go ahead with the database next year.

It's not just suppliers who we want to do more to engage consumers.

Price comparison websites and other third party intermediaries are increasingly coming to the fore as well.

The CMA has proposed the removal of the requirement on price comparison websites accredited under our Confidence Code to show a whole of market view of tariffs.

We will make a decision on the first step towards implementing the CMA remedy in the first quarter.

We will also be continuing our Future of Retail Regulation programme to remove unnecessary prescriptive rules and introduce new principles into the licence.

We began this journey in 2013 with our Standards of Conduct which requires suppliers to treat their customers fairly.

In the second quarter we will introduce a new vulnerability principle in the gas and electricity licences.

This new approach to regulation requires a significant cultural shift from both the regulator and suppliers to work.

We have held several "challenge panels" of experts to review suppliers' progress to date.

In December the panel expressed concern that some larger suppliers' approach to the Standards of Conduct resembles a box ticking compliance exercise.

There were some encouraging signs however. The panel said that for medium sized suppliers, treating customers fairly is more embedded in the ethos of the company.

While we don't expect change to happen overnight, it's clear that suppliers need to do more embrace this new approach.

Ultimately, it's in their interests. Because putting consumers at the heart of everything they do will ultimately help their businesses thrive.

I mentioned earlier that the energy system is going through a transformation to become lower carbon, more decentralised, smarter and more flexible.

Given the scale and pace of change, the dividing lines between the roles traditionally played by networks and generators are becoming blurred.

That's why we will develop a strategy that cuts across our energy system and network regulation over the coming years.

We will outline our approach in the first quarter.

We have an important role to help facilitate this transition to make sure that the full benefits for consumers are harnessed and at the lowest possible cost.

The flexibility programme is a key part of this.

We launched it in response to the need for the energy system to make use of new sources of flexibility, such as storage and demand side response.

Following November's consultation, by June of this year we will publish our plan for enabling a smart, flexible energy system jointly with the Department for Business, Energy and Industrial Strategy.

We will also take forward our work on the System Operator role after announcing plans last month with the government to create greater separation between this role performed by National Grid and the rest of the group.

We want to do more to support innovation. In December we launched the Innovation Link to help innovators navigate what is sometimes called the regulatory jungle by providing fast, frank feedback.

It's an example of our commitment set out in the Forward Work Plan to position ourselves as agents of innovation by adopting a more flexible approach, particularly to new ideas.

The link is now supporting nearly 40 innovative businesses.

We are considering introducing a "regulatory sandbox". This isn't something you'd find on the beach or in the garden.

A sandbox enables innovators to trial new products or services without incurring all of the normal regulation.

For Ofgem it would be an opportunity to monitor new ideas in a regulated environment, assess the potential benefits to consumers and consider how the regulatory framework should evolve.

Our work on the reform of network charging will continue in 2017/2018. A particular focus is embedded benefits.

Embedded benefits are the benefits that smaller generators like solar farms and diesel generators receive through the charging system for being connected to the distribution network.

Our wider review of charging aims to make sure there is a level playing field for investing in generation whether it is connected to the distribution or the transmission network or behind the meter on consumers' premises.

In the first quarter we will publish our final decision on current industry code modifications that relate to embedded benefits as well as our proposed approach to the wider reform of network charging.

We are helping to upgrade the architecture of the energy system to make it fit for a smart future

Take our ongoing programme to introduce settlement based on actual half hourly meter readings, rather than through estimated readings.

Combined with the roll out of smart meters, it has the potential to revolutionise when energy is supplied and consumed.

We are also working with suppliers to modernise industry systems to help deliver faster, hassle free switching.

We expect continued scrutiny on our network regulation in the coming years.

We are now approaching the mid-point of the first set of RIIO price controls. Next year we will start turning our attention towards preparing for RIIO2 – the next set of price controls which begin in 2021.

We switched from an eight rather than five year price control for RIIO to provide greater certainty for network companies and bring down the cost of capital, delivering lower costs for consumers.

This makes it even more important to set the parameters of the price control appropriately.

And yet the scale and unpredictability of change in the energy system is going through makes longer term forecasts more challenging.

So we need to consider for example whether it's appropriate to continue the eight year price control period for RIIO 2.

When you set up a new regulatory framework, you're never going to get everything right.

The priority for us now is to make sure the lessons we have learnt are fully reflected for RIIO 2.

I mentioned Brexit at the beginning of my remarks.

The uncertainties posed by Brexit are a challenge for all policymakers. We don't yet know what the implications are for energy.

We are continuing to provide input to government and to work with the European Union - and other European institutions - to achieve outcomes that meet the interests of GB consumers.

And last but certainly not least, our core business activities – like enforcement, compliance and our work on security of supply – will continue next year.

These will remain central to our role as regulator.

The programmes I've described so far all relate to what staff informally refer to "Ofgem Orange", covering our core regulatory functions.

There is also a separate arm called E-Serve, known internally as "Ofgem green", which delivers a range of green energy and social schemes on behalf of government.

Last year the government announced plans to split E-Serve from Ofgem but legislative time has not become available to do that.

This means that E-Serve will remain an important part of Ofgem for the foreseeable future as it continues to administer these schemes on behalf of government.

The cost of these schemes – and our role administering them - is likely to face increasing scrutiny in the period ahead.

In 2017/18 we will work closely with the Department for Business, Energy and Industrial Strategy to consider what can be done to simplify delivery of the schemes we administer and to drive value for money for consumers.

That brings me to the end of my whistle stop tour of Ofgem's work planned for the next financial year.

I hope it has helped inform you what you can expect from us and also maybe provoked some thoughts about what you'd like us to do more or less of.

To repeat David's earlier point, the Forward Work Plan is a consultation.

This is not a case of me handing down the eight areas of the forward work plan from on high, Moses-like, in tablets of stone – we want to hear your views and we will take them on board.

Exciting times lie ahead which we want you to be a part of.