Future Consumer Event
Wednesday 05 July 2017

Table Discussions hosted by senior Ofgem facilitators:
Table 1: Rachel Fletcher, Senior Partner
Table 2: Martin Crouch, Senior Partner
Table 3: Andrew Wright, Senior Partner
Table 4: Neil Barnes, Associate Partner
Table 5: Pamela Taylor, Partner
Table 6: Rob Salter-Church, Partner
Table 7: Mark Wiltsher, Associate Director
Table 8: Anthony Pygram, Partner
Table 9: David Ashbourne, Partner
Table 10: Keith Lough, Non-Executive Director, GEMA

Stakeholder feedback:

Q1. – How can we ensure ALL consumers gain from advances in innovation and the opportunities provided by a fast-changing market both now and in the future?

Communication & Restoring Trust

- Communication is key to ensuring that consumers gain from advances in innovation and will assist in introducing better opportunities to energy consumers.
- For the energy market to be effective there is a need to reach those who are not currently engaged and educate our consumers.
- The idea of the 'average consumer' is an outdated concept: we need to start talking about consumers based on their characteristics. Ofgem touched on this within the Future Insights papers by developing consumer profiles e.g. 'switched on', 'on standby' consumer etc. Looking to the future, consumers will play multiple roles, including being producers of their own energy. For effective communication, we need to consider consumers as a diverse group with various needs and functions, as benefits and costs will vary from consumer to consumer.
- In addition to effective communication, we also need to reassure consumers that there is a level of trust between consumers and suppliers. This has to prove to consumers not only that advancing technology works but also ensure that cyber security is on the forefront of our priorities.
- For poorer consumers, information trustworthiness and availability is key. The history of mis-selling is very damaging to consumer confidence.

Vulnerable Customers

- **There is no one size fits all approach:** Vulnerable consumers cover a large and diverse group of people with different needs and capabilities. When we talk about 'vulnerable consumers' often the first group of people to come to mind is the elderly or deprived. However, problems seem to be more prominent with increasing engagement with disabled consumers. It is important that we target consumers alongside their wants and needs.

- **The role of advocates**: 'Vulnerable consumers' often need other organisations or people to advocate on their behalf and they are often seen as the group of consumers who are less likely to switch. Therefore, we need to enhance structures and technology to supports this. We also need to consider the people who do not know where to go, or how to engage in the energy market. This may take further intervention from charities or local authorities.
- **A large investment will be needed:** If the aim is to ensure 'all consumers gain' this will likely need significant intervention. If benefitting from something requires a large investment (i.e. smart technology/insulation) then we need to look at the distribution of wealth across households. It is important to ensure that the same options are available to everybody and if people cannot access the best gadgets then alternative or more convenient arrangements need to be made.
- **25% of consumers don't have access to new products and services** i.e. online services that we are seeing in the market. Some have argued that costs to subsidise the vulnerable are picked up by the rest, resulting in increased 'social costs'. But solar panels, for example, benefit the wealthiest and are subsidised by the least able.

Digital Innovation

- **Importance of digital skills:** We are increasingly finding that people who do not have digital skills are being forgotten about or left behind. Therefore, more needs to be put into digital training to keep up with recent advances.
- An example from the energy industry would be **Price Comparison Websites (PCWs)**. As these are predominantly online, it can often be difficult for consumers without access to the internet to easily switch, which reduces the chances of the consumer doing so. In addition, we also need to improve access to technology to make these user-friendly. This includes access and disability checks.
- **Historic trends about consumer behaviour cannot therefore be fully relied upon to predict the future.** For example, millennials are tech savvy, increasingly digital and may want to engage and intervene themselves. They will have different preferences from the elderly, who prefer to talk to a person instead.

Incentives to Engage

- **Incentives for switching:** The energy industry relies on incentives to engage consumers. However, as the outputs largely depend on energy consumption and savings, it is not always possible for consumers to benefit equally. Someone who spends more on energy will save more from switching and be incentivised to do so. We need to find a better way to drive motivation for low income and vulnerable customers.
- **Misconceptions about lack of engagement among vulnerable households:** Conversely, we should not assume that low-income households are not able or do not want to engage. Often the most vulnerable consumers are the most engaged as they wish to keep closer accounts on their energy usage and are often the most likely to try to get

the best deal. The roll out of Smart Meters will help vulnerable consumers even more, as it'll allow them to keep track on spending.

- **Time of Use tariffs and bundled deals as potential triggers for engagement**: Although Smart Meters have now been around for a while the Time of Use (ToU) tariffs are yet to be rolled out. Where is the reward? Another way this may be possible is by bundling energy with deals such as internet or phone bills. Once the reward is more tangible and convenient we will see more consumers gaining from innovation.

Predicting the Future

- **The potential of Smart Meters to revolutionise engagement?** It is difficult to predict the future but we are now faced with a fantastic opportunity with Smart Metering. Smart Meters are at the beginning of a new journey to improve efficiency and engagement. But are expectations of revolutionising the energy sector realistic?
- **The reality of energy transition:** We are moving rapidly from a supply-led market to one with less control. We need to build a market that values flexibility. Multiple value pools are needed. Currently we're taking an incremental view but there is a paradigm shift - local, peer to peer. This will happen and people will vote with their feet.

'Prosumers'

- **It's a personal choice:** It is a well-known fact that we live in a market choice industry. Not everyone wants to be a 'prosumer' and some customers just don't want to be actively engaged. Households do not behave in the way we want, or need them to, to create a functional market.
- **Energy communities:** In the future, we may be looking at 'energy communities' which are managed by a selected community prosumer.

Innovation & Regulation

- **The scope for innovation in energy products:** For innovation to expand and reach all consumers, we must make it easy. Energy is an essential service - it is a consumer product like no other. Innovation happens when you have a product to differentiate, and it fundamentally changes your lifestyle.
- **Market forces:** If you want all consumers to benefit from innovation you have to trust consumers to make choices like in other markets because there is going to be more complexity. You have to allow the market to differentiate and segment itself. This may mean a very nervous time for the regulator including removing many prescriptive protections to allow competition to do its own work.
- **Role of Ofgem:** Ofgem needs to be open to substantial innovation and perhaps may need to take a step back. The market has been open for 15 years. We have had a decent amount of time to figure out what the market will and won't do. There is consistent differentiation in engagement by consumers. Many don't take the opportunities to save money.

- **Regulation needs to be more flexible**: Its role needs to change to challenge innovation. Ofgem needs to understand and challenge how to be innovative in the short term whilst preparing for the future.
- **Future regulation - energy as a service:** Should we leave the market alone to allow innovation or should Ofgem step in and regulate? Should we allow new opportunities like sharing data or 'socialisation funding'? The number of people who need protecting might shrink but also deepen in actual need.
- **Energy use and grid capacity:** In the future you will need to differentiate between capacity and energy use. So if you have a street of bankers with Teslas, it's not simply about paying for how much electricity you use, as there are capacity implications.
- **Can we define a fully functioning market?**

Gas & Decarbonisation

- **Are we focused on the wrong issue?** What about gas? A much bigger percentage of household usage comes from gas. There are three boiler replacement cycles between now and 2050. What should the technology and priorities be for each? We need a direction of travel. We need to stop wasting heat and energy - the economics don't drive the market and they should.
- **Gas and housing stock remains a key issue**: We have an infrastructure based on gas hot water boilers, and our housing stock does not hold heat well. Benefits of smart meters without broader social policy /housing reform will always be limited.

Q2 – What more can Ofgem do to remove barriers to innovation that benefits consumers?

Data Regulation

- **Balancing consumer protection and innovation in regulating data:** It is important to regulate data, what can be used and how. Data can open up new areas and services, which could kick-start innovation but this needs to be managed carefully. It will be important to understand how we create conditions which will allow removing barriers to innovation while protecting consumers.
- **Data and trust:** Restricting data in the industry makes it difficult for innovation to flourish. How can we better share the data? Opening up smart meter consumption data may be a way to do this. Research has shown that consumers would be happy to share data providing it makes a positive difference in the industry.
- **The reality of data sharing:** People give their data freely to Facebook or Twitter or Google because those products are integral to our lives – why obsess over data consent and protection when this is the case? If the innovation and products are suitable, consumers will be willing to give their data.
- **Role of the regulator:** The regulator has to give clear direction and provide a framework on data sharing and data consent in the marketplace for this to be effective. New regulation would be beneficial to allow the

government to share data across departments. This would aid and protect vulnerable customers more effectively and intelligently e.g. winter fuel allowance is not means tested and it doesn't get to where it's needed.

Rolling out innovation

- **Innovation and access to the latest technology:** When we are rolling out innovation, will we be treating people equally and creating a level playing field? Someone without a smartphone or internet is disadvantaged in the current industry and access to the sector is more difficult. Are regulators choosing innovation that favours technology? If so, this is not treating disadvantaged consumers favourably.
- **The economics and politics of innovation:** When innovation is rolled out, it may be useful to look back in history and look at the roll out of electricity or telephones for example. In the first instance, it may not be economically viable to put new technology into every home but at what point do we say it is a social necessity i.e. broadband. Is this a necessity? Should the costs of extending it to 'uneconomic homes' be 'socialised'?
- **Regulation of bundled services:** With bundled services, who will regulate the other services? Is the statutory framework of the current regulator designed to limit innovation?
- **Smart technology incentives:** To realise the benefits of smart meters, you need smart equipment in the home. Should landlords put smart appliances in the house for renters, or not? Should incentives go to the consumption side of the model and not just to renewable generators?

Climate Change

- **The regulator has no formal duty or accountability for climate change:** This is something that should be considered for the future of the regulator alongside new innovation.

Third Party Intermediaries (TPIs)

- **Switching sites have not been tailored to vulnerable customers' needs:** There is no information on Warm Homes Discount and it is not clear whether tariffs are smart or not.
- **We need more regulation over TPIs.** TPIs are being prompted to a single business model that does not give value to customers.
- The real test will be when an already favourable and established brand like Google comes into the market. They are often not complex and do not adhere to regulations e.g. peer to peer lending – regulator plays catch up.
- **Can Ofgem get out ahead?** What happens if new energy suppliers are providing energy along with lots of other services or if other services are more of an attractive offering than energy? What happens if these new models do not help balance the system?