

## **Dermot Nolan's speech at Ofgem's Future of Energy Conference**

Earlier this morning, you heard from our new Chair, Martin Cave, who set out our vision for the future of the energy system, as well as the principles that will guide us on this journey.

In a sense, his speech addressed the what question – by which I mean what our vision for the future is, and I think it also addressed the why question, or the outcomes for consumers that we're seeking to achieve.

In my speech, I want to build on that – and turn in more detail to how the work we have planned will help us to realise this vision, and, as importantly, when we plan to do it.

In fifteen minutes, it won't be possible for me to refer to all of the important programmes and projects that Ofgem has or is planning – and, in any case, our Forward Work Programme sets these out in somewhat more detail.

But I hope that I am able to cover what we think are some of the most important details, to give you a flavour of the four key priorities in this work programme, the links between them, and what, together, they add up to.

There is a danger, which I apologise in advance for, that it will turn into a list. To some extent that will be inevitable, but I will try to avoid it as much as possible.

We will refresh the work programme next year – and, of course, unforeseen priorities may arise from time to time, which will require us to make in-year changes.

One thing that I do want to say quite explicitly is that – recognising the long-term and continuing nature of our work – this work programme covers a two-year period from 2019 to 2021.

That's for a number of reasons, but predominantly because given the complexity, pace of change and uncertainty facing the energy sector, we believe it's important that we provide a clear statement of intent and forward vision, so that industry, consumers and other stakeholders understand the actions we plan to carry out and the outcomes we seek to deliver.

In all of this, we genuinely welcome your views – and in that vein, I encourage you to continue participating in today's conference, and at our other conferences in Cardiff, Glasgow and Manchester, as well as responding to the consultation itself.

## **Making retail markets work for all**

At the heart of everything in our Forward Work Programme is a commitment to make a positive difference for all energy consumers, now and in the future.

At the moment, as Martin said, consumers engage with the energy system first and foremost through the retail market.

So let me start there with our first key priority: making retail markets work for all – which Mary Starks, our new Executive Director for Consumers and Markets, will be leading.

We want to see a retail market that delivers good outcomes for all consumers.

In practice, that means significant improvements in terms of value for money for customers, overall customer satisfaction and indeed market functioning.

The introduction of the price cap at the beginning of this month is the start, rather than the end of this transformation.

Following the introduction of the cap, the level will be updated in April and October every year to reflect the latest estimated costs of supplying electricity and gas.

Next month, we will announce the updated level of the cap – to take effect in April.

While I cannot say today exactly what it will be, wholesale costs have risen significantly over the last year. As a result, it is likely that we will announce an increase – and potentially a significant one – in the level of the cap.

Even if this is the case – and obviously I hope that any increase can be ameliorated and as minor as possible, but ultimately I can't guarantee that as we are committed to passing through efficient costs – customers can still be confident that any increase in the cap only reflects changes in the actual costs of providing the gas and electricity they use – and that they will always pay, as a result, a fair price for their energy.

At the same time, we will be vigilant in terms of supplier performance, and ensure that the introduction of price protection does not lead to a reduction in supplier standards of conduct or indeed customer service.

Across our work in the retail market – and indeed, across all of our work – we will continue to focus in particular – and I would hope strengthen that focus – on the needs of consumers in vulnerable circumstances.

As I and others have said before, energy is an essential service that affects people's comfort and health – and the retail market cannot be considered to be well functioning until it is meeting the specific needs of a wide range of people across a wide range of circumstances

In both panel sessions this morning, and particularly the first one, I was hugely struck by what the panel said. Indeed, I felt a very strong emotional response as a result. My emotional response is of no value to anyone in a vulnerable circumstance, but I do want people to know that I heard it, that the organisation has heard it, and that we are committed to doing the very best that we can about it.

And in that sense, one of the single most important things we will do this year is to update our consumer vulnerability strategy.

I'm conscious of the difficulties in this area – and that there are no easy solutions. I'm also conscious of the point that Adam made – that we don't want to engage in a game of passive aggressive ping pong with different entities saying it's not necessarily our issue; it's someone else's.

All I can say is that we will do the best we can, given our statutory mandate and statutory powers. We really will focus on this issue.

I'm also conscious of the difficulty of what is vulnerability. These are all difficult questions and we will do our very best to deal with them.

While much of the debate so far today, and indeed in the sector more generally, is focused on the experience of domestic energy consumers, small businesses experience many of the same issues.

So we will therefore conduct a strategic review of the microbusiness retail market, and make recommendations and changes as needed.

Alongside this, and as Martin mentioned, we saw a number of suppliers exit the market in 2018 and indeed in 2019. While this is to be expected in a properly functioning market, we will conclude our review of our approach to licensing and regulating suppliers in a way that we think will raise standards around financial resilience and customer service.

### **Enabling future markets and system arrangements**

As Martin outlined, the energy system is undergoing rapid changes – and we expect the scale and pace of these changes to accelerate over the next two years.

While we can – and will – make the current energy market work better for consumers, they won't be able to benefit fully from the changes we are seeing without fundamental changes to the design – or the plumbing – of the system itself.

And this brings me to our second key priority: enabling future markets and system arrangements that will benefit consumers.

The first aspect of this work is implementing new systems and rules for a smarter, more flexible energy system – and also an energy system that is decarbonised in both electricity and heat by 2030, 2040 and 2050.

In order to do this, we will:

- Continue to support the Government with its smart metering programme; and
- Consult and then decide upon market-wide new arrangements for half-hourly settlement in the second half of this year.

Another part of this priority area is working with you all to develop solutions and systems for future consumers. In order to do this, we will:

- Undertake a joint review of codes and code governance with BEIS by summer this year; and
- Conduct a joint review with Government of the design of the retail market by March 2020.

The change we are seeing to the energy system also means we have to look again at improving network access, charging, system operation and wholesale market arrangements – and how all these different elements of regulation intersect with each other. This is the third aspect of this priority area:

- We have recently published a consultation for reforming residual electricity network charges and some of the other embedded benefits through our targeted charging review. We plan to make a final decision later in 2019.
- Alongside this, we are initiating an electricity network access review to ensure electricity networks are used efficiently and flexibly, and can facilitate the major change that will come through the decarbonisation of transport, and the roll-out of electric vehicles, and that we have the right signals for future investment in those areas.
- Over-capacity on the gas transmission system raises questions about the suitability of the current charging methodology. So we will continue to work with National Grid and the gas industry to deliver an efficient, compliant regime.

- An efficient system – in electricity and ultimately in gas – in a more flexible, decentralised and decarbonised world needs efficient, coordinated system operation. So a new, legally separate electricity system operator will be established within National Grid in April. This will put the electricity system operator in a better position to respond to – and help facilitate – the transformation of the system.

More generally, we will be carefully considering how well the structures of all the system operators are responding to and facilitating the current and future needs of the system, and delivering benefits for consumers – and whether further changes are needed.

The fourth and final aspect of this priority area is to ensure that energy consumers continue to benefit from a stable and secure energy system. To do this, we will:

- Complete our ongoing five-year review of the Capacity Market Rules;
- Continue to support Government in addressing the implications of judgement of the European General Court annulling the European Commission's state aid clearance of the Capacity Market;
- Continue to work with partners to ensure that there is an effective Black Start framework in place – so that energy can be appropriately restored to homes and businesses in the very unlikely event of system failure; and
- Taking on new responsibilities for Ofgem, monitor, evaluate and report on how energy companies keep networks secure and consumer data safe, as part of our joint Competent Authority role for cyber security in the energy system.

Alongside this, responding to the UK's planned withdrawal from the EU is clearly an overarching priority.

We have been working closely with Government and industry to ensure that the regulatory structure continues to work effectively after withdrawal and that the impact of EU Exit on issues such as cross-border energy flows and trading is understood and managed.

Our aim is to ensure that the impacts of the UK's withdrawal from the EU on the energy system and energy markets are managed appropriately, and ensure continued stability and security.

## **Network preparedness and performance**

At a time of significant change for regulated networks, we will work to make network companies deliver system security, innovation and value for money for consumers.

So network preparedness and performance, which Jonathan Brearley, our Executive Director for Systems and Networks, leads, is our third key priority.

We aim to do this by effective administration of existing price controls (the RIIO-1 framework), as well as finalising our overall approach to the new set of price controls (RIIO-2) and also by introducing more competition in network activities.

In December, we published more detail on how we propose to apply the RIIO-2 framework in each of the sectors that have their next price control starting in 2021.

We signalled clearly, as we have done for some time, that we expect a tougher round of price controls, with lower overall average returns across the sector, and we are committed to doing that – while continuing to recognise the benefits to all from a stable and predictable regulatory framework.

We also recognise that we face a rapidly changing energy landscape, and that regulation – and indeed energy networks – need to be able to respond to these changes.

The proposals we have put forward will, we believe, result in significant savings for consumers and deliver a resilient network, that is fit for the future.

## **Excellence in statutory and core functions**

At a time of such significant change and uncertainty – and while I note what the second panel said about today’s energy customers also being tomorrow’s energy customers – it is absolutely imperative that consumers can rely on the regulator to protect their interests. This brings me to our fourth key priority.

To ensure that effective protection is maintained, we are committed to achieving excellence in the delivery of our core functions. This includes market monitoring, effective licensing and market arrangements, plus robust compliance and enforcement as needed.

It also includes our delivery of renewable energy and social schemes, which are very much at the forefront of the country's efforts to reduce carbon emissions and fuel poverty, and also to improve energy efficiency.

Our E-Serve directorate will therefore continue to deliver a diverse array of renewable energy and social schemes on behalf of the governments that we work with.

In this work, we will continue to focus on protecting consumers' interests, while also ensuring public money is managed effectively and efficiently.

In particular, we aim to drive down non-compliance with scheme regulations, and continue to highlight legislative loopholes to our government partners and tackle suspected fraud.

### **Ofgem: the organisation**

Our ability to do any of this work depends, of course, on the efficiency, effectiveness and resilience of our systems, processes, resources and, most of all, our people.

Our people – who work for us in Cardiff, Glasgow and London – are by far our greatest asset as an organisation – hardworking, professional and committed to ensuring that the energy system works for all consumers, and particularly for vulnerable consumers. We are lucky to have them.

Under the leadership of our Chief Operating Officer Sarah Cox, we continue to evolve as an organisation, to become more efficient and effective in protecting consumers.

Last year we put in place a new streamlined organisational structure and also moved our London office to a new, more cost efficient office in Canary Wharf.

I believe that we are now reaping the benefits of smarter, joined up working – which I hope will mean that we are well placed to meet the Secretary of State's ambition for agile regulation.

In recent months we have thought a lot about our diversity as an organisation: how diverse we are – including in terms of ethnicity, gender, and the number of staff with disabilities or who come from different backgrounds, and are we ensuring that all those views are included in the decisions that we make.

At Ofgem, we think it's hugely important for us to put more effort and resources into becoming a more diverse organisation.

I'm very glad that you've all come today – and it's desperately rude for a host to insult their guests – but, looking around the room, we are not the most diverse of sectors.

While it is not up to me to tell any of our stakeholders, or any of our licensees that we regulate, what they should do in this regard, I would say that we are seeking to become more diverse. Not just because it's the right thing to do, but also because we think it will help us to make better decisions. We will respond to different experiences of different people from different backgrounds, and have fuller and better decisions.

I would say to the energy sector: I think if you have a more diverse sector yourself, particularly at senior levels, that will help you make better decisions and better serve your customers.

That was a point I wanted to make very clearly – and the challenge is up to the energy sector to respond to it.

## **Conclusion**

I want to conclude by saying that we believe this exciting programme of work will deliver real and lasting benefits for all consumers – now and in the future.

But we want your views on it too – because, ultimately, we can't deliver this on our own.

So I look forward to hearing what you think both in the coming session and the consultation – and then working with you to deliver this programme in the interests of all energy consumers.

Thank you.