

Mary Starks' speech at National Energy Action Cymru's Fuel Poverty Conference

Check Against Delivery

Thank you for the opportunity to take part in this very important panel discussion.

As set out by Adam, one question this session is seeking to answer is – Are energy companies and Ofgem doing enough to protect consumers both now and in the future?

I can give a straight forward answer: we can always do better and we are determined to do so.

To quote a speech given by our Chief Executive, Dermot Nolan, from a couple weeks ago:

the single most important thing we will do this year is update our consumer vulnerability strategy.

That message was given at one of four conferences Ofgem has held across the UK (including in Cardiff last week) to listen to consumers, consumer groups and other stakeholders' views on our Forward Work Programme for 2019-2021.

The purpose of these events was to widen the conversation about the future of energy, and the regulatory framework needed to support it. And ensure all our stakeholders had the chance to provide their views.

I would like to thank the NEA for not only attending our event in Cardiff last Thursday but for also providing such a constructive response to our consultation on our Forward Work Plan.

So this panel discussion comes at an opportune moment because, while we are always eager to hear from stakeholders, we are particularly keen just now.

In that spirit I will try be brief with the rest of my remarks so we can hear your questions.

At the heart of our Forward Work Programme is a commitment to make a positive difference for all energy consumers and our refreshed consumer vulnerability strategy will detail how we will deliver this commitment for consumers who find themselves in vulnerable circumstances.

However before I talk about our refreshed strategy, I need to kick off by speaking about perhaps our most impactful intervention – the default tariff and prepayment price caps. The price protections these give ensure that millions of people, including many of those in vulnerable circumstances, pay a fair price for their energy.

As many of you will know, last week we unfortunately had to announce an increase to these for April to October.

Last year global oil prices increased and we had unusually severe weather; both forced wholesale prices up and so – as we committed to passing through efficient costs – we had to raise caps.

It is scant consolation to those impacted by this that it is a result of a genuine increase to the costs of supplying energy and, with the cap in place, consumers who prepay or are on default tariffs will always pay a fair price for their energy.

I want to stress, though, that if the underlying costs in supplying energy go down then the tariff cap will also reduce.

Of course, it would not be an Ofgem speech if I did not state that the best way to pay less is to switch supplier.

But why is price protection needed in the first place? Simple – the market is simply not delivering a good deal for most people.

Until the price caps were introduced, it was the customers who do not switch, who stayed with the same supplier year-after-year, who saw their bills go up – seemingly regardless of what was happening to the underlying cost to supply energy. And while they pay more, savvier and more engaged consumers with the confidence to compare and switch got and continue to get cheaper fixed term deals.

I probably do not need to tell you that vulnerable consumers – particularly those on low incomes, the elderly, those who are not online and those with mental health issues – are often those that find engaging with the energy market (as well as many other markets) most challenging.

According to the Competition and Markets Authority, in 2016 roughly 1 in 3 of those with a household income above £36,000 had switched supplier in the last 3 years. This compares to only 1 in 5 of those with household incomes below £18,000.

We know that compared to other parts of GB, more Welsh consumers fall into potentially vulnerable groups, such as having a disability, a low income or in the DE social grade. Ofgem's recent consumer engagement research found that more Welsh consumers shopped around and compared tariffs – but didn't then take any further action.

Welsh consumers told us there was too much choice in the market, and that it was too hard to tell whether they would save money. So in the end, they chose not to switch.

It is a sad irony that those with the most to gain from switching do not or cannot switch. And as a result of their loyalty they are likely to be paying hundreds of pounds a year more for their energy than the rest of us.

It is therefore little wonder that there is such widespread political and public support for price protection. But it is and can only be a temporary solution, the legislation dictates that it must be lifted no later than the end of 2023 and it could be lifted earlier if the right conditions are met.

These conditions are simple to set out but harder to realise. They are that retail energy markets must work well for most people, including those in vulnerable circumstances, not just for a savvy few. This means increasing the number of people engaging in the market and ensuring that those that cannot get the backstop protections they require.

And herein lies the challenge for both our overall Forward Work Plan and refreshed Vulnerability Strategy.

Our work must tackle the challenge of low market engagement but also the new challenges that lie ahead.

Those of us immersed in the energy sector, can get very excited about the changes on the horizon. Whether it be smart meters and consumers sharing their consumption data with third party services that automatically switches them to the cheapest deal. Or dynamic time-of-use tariffs that prompt consumers through their smart devices to consume more or less based on the wholesale prices. Or even services that pay consumers for helping to manage the grid by consuming less energy in times of system stress.

But new technology presents risks as well as opportunities.

If only those that are digitally engaged and comfortable using new services reap the benefits from the transformed energy system then we will leave the vulnerable behind. That is unacceptable.

Since publishing our Consumer Vulnerability Strategy in 2013, we have made progress in improving vulnerable peoples' experiences of the energy market, including:

- We introduced the vulnerability principle into the supply licences to ensure that suppliers are held to account for treating consumers in vulnerable circumstances fairly
- We have improved data sharing between supply companies and distribution companies to enable better identification of those in vulnerable circumstances. This has allowed more people to access priority services.
- We have scrutinised disconnections – a terrible outcome for consumers. These are down from thousands per year ten years ago to 17 in 2017
- As part of our gas distribution price controls, we have incentivised gas distribution companies to connect off-grid households to the gas network. Since April 2008, the gas distribution networks have connected over 105,000 eligible households to the gas grid through the scheme.
- As part of our electricity network price controls, companies have delivered innovative solutions, such as two-way texting in emergencies and vulnerability mapping tools.
- And through Ofgem E-serve – our scheme delivery arm – we have successfully administered the Warm Home Discount (WHD) and Energy Company Obligation (ECO), which have delivered significant benefits to consumers. In 2018, for example, WHD delivered £140 rebates to nearly 2.2m vulnerable consumers.

I do not list these seeking or expecting plaudits. It is to demonstrate that tackling vulnerability is important to Ofgem and that there is much more to do.

To develop our new strategy we, in the last few months of 2018, spoke with a wide variety of stakeholders, including academics and vulnerability experts. We ran a number of workshops for the third sector, devolved governments and industry to ask them what issues they think will affect outcomes for vulnerable consumers in the next 5-6 years and what role can Ofgem play to address those issues.

I know many of you here today contributed to our vulnerability workshops in Cardiff last November – thank you.

Based on these conversations we identified five themes where improvements can be made for consumers in vulnerable situations:

1. Improving identification of vulnerability and smart use of data
2. Driving a step change in customer service
3. Supporting those struggling with their bills
4. Encouraging positive innovation
5. Ofgem working across boundaries, for example with Government departments and other regulators

To this audience, I particularly want to stress the last of these. Our plan is to publish a draft strategy for consultation in the spring and I encourage everyone here to respond and give us your thoughts, I assure you we read and consider every submission.

This last theme also recognises that vulnerability is not a problem that one organisation can solve. As a regulator we need to be realistic on what we can and cannot do. We know, for example, that investing in home energy efficiency can be one of the surest ways of bringing bills down permanently – and I am aware the Welsh Government has invested millions over the past decade in domestic energy efficiency, through its Warm Homes programmes.

Through our engagement many stakeholders raised wider societal issues affecting certain energy customers, such as changes to welfare and increasing income volatility and the prevalence of mental health issues. Stakeholders at our Wales workshop were keen to emphasise that customers in rural areas, who are often not on the gas grid, are often less able to access smart, tech-based solutions. Something those of us in cities sometimes need to be reminded of.

It is only through collaborative working that we can hope to tackle these cross-cutting issues.

The challenge – to ensure as many people as possible get a good deal from the energy market and the service they require – is one we do not underestimate but is one we are determined to meet head on.

It is only by working with those in this room, Government, and industry that we will succeed.