

Martin Cave's speech at Citizens Advice consumers at the heart of the Future Energy system conference

Check against delivery.

Thank you for inviting me to address your conference this morning.

I can think of nowhere better to have a conversation about putting consumers at the heart of the energy system – than here at Citizens Advice.

You have accumulated enormous insights into the challenges consumers face, from the millions of conversations which your network of independent charities is having in every town and every city across the country.

Combined with your smart policy analysis, this makes you a powerful and important voice for consumers.

Ofgem's primary duty is to protect the interests of current and future consumers, so yours is a voice to which we will listen with great care and attention.

In my remarks today, I want to focus in particular on the future of the retail energy market – because consumers engage with the energy system first and foremost through the retail market.

The starting point for me is an honest assessment of the current retail market arrangements.

Two things stand out.

First, in fundamental structural terms, the retail energy market has changed little since privatisation.

Yes, there are more players now and we have made improvements within the current market structure, such as reducing switching times and improving the settlement process, but, fundamentally, the architecture of the retail market has not changed.

Second, the domestic retail market is not working well for many consumers, in a number of ways.

- While competition has improved in many ways in recent years, this has brought its own issues.

The benefits of competition have not been evenly shared: savvy customers have got better deals while less engaged customers (on average less well-off,

less educated and more likely to be vulnerable) have paid a penalty for their loyalty. This has been mitigated by the introduction of the default price cap in January.

- The legacy of many years of a concentrated, uncompetitive retail market is widespread cost inefficiency.
- What's more, the rapid entry of a large number of new suppliers, combined with the poor customer service and financial failings of some, has raised concerns about fitness to operate in this market. We are seeking to address this through our supplier licensing review.
- And, despite the improvements that we have seen in some areas, many of the basics around quality of service are – in parts of the market at least – well short of what customers should expect from an essential service. Examples are billing accuracy, complaints handling, and reliability of switching.

And the market is working badly both for small businesses and for innovative entrants into the supply market, resulting in less choice for consumers, less competition and almost certainly higher prices.

BUT, there are signs that the retail market is undergoing a transformation, which will only intensify and accelerate in the next few years.

The transition to a low carbon economy will fundamentally change the way households and businesses purchase and use energy.

In this world, as new technologies, services and business models emerge, consumers will have more choice, but also more complexity – as they can choose not only who to buy energy from but also:

- whether to opt for a time of use tariff;
- if so, how to optimise energy usage over the course of the day;
- whether to invest in things like smart technologies and storage;
- whether to buy energy in a bundle with other things, for example other household services, or an electric vehicle; and
- whether to share their data and, if so, with whom.

We might also expect the role of platform intermediaries to grow – from price comparison websites to auto-switching services, as well as home automation providers, which help households manage their consumption and save money.

Increasingly consumers will need to decide whether to engage directly in the market or to delegate to a third party.

At the moment, these intermediaries, which may operate in other sectors as well as energy, are largely unregulated.

Enabling this innovation – and allowing new products, services and businesses to enter the market – is key to realising the energy transition to a low-carbon future.

Programmes such as smart metering, faster switching, settlement reform and network charging will do much to modernise the market, drive greater innovation and deliver better outcomes for consumers.

However, to realise the benefits of this innovation, more needs to change. In particular:

- Consumers will need to be able to understand the range of services on offer in the market, so that they can make informed decisions to adopt new technology or sign up to services that will shift their demand for them.
- Consumers will also need to have confidence that the choices they make will work for them – and that if something does go wrong they will receive adequate protection.
- And, in some areas, consumers will need to purchase and install new kit – whether it be smart appliances, storage, solar PV or something else entirely.

The regulatory framework must enable innovators and customers to maximise the opportunity in front of us.

But even if it can do this – and even if innovation can help to engage more consumers in the energy market in the future – it is likely that some consumers will remain disengaged.

The current price cap, which I know Citizens' Advice have supported for a number of years, ensures that disengaged customers pay a fair price that reflects efficient costs.

The legislation dictates that the current default price cap will last a maximum of 5 years and can be lifted earlier if the right conditions are met.

This may mean that in the future the protection some consumers have received from the cap may cease to exist, because this price protection is only temporary.

We believe that enabling innovation has the potential to allow a more competitive and dynamic market to evolve.

But for consumers who are less able or less inclined to manage this increased complexity, it also has the potential to exacerbate or create new types of disadvantage.

As a result – and in addition to tackling consumer detriment that we see in the market today – we must also put in place a regulatory framework that

- facilitates the energy transition to a low carbon economy,
- allows firms to innovate and compete on the opportunities presented by the energy transition,
- and at the same time ensures that customers are protected in this more complex world.

What we want therefore is a system that guarantees that all domestic consumers will be served, in a way that meets their needs, at an acceptable price.

The system must also be ready to deal swiftly with any problems that innovation throws up.

This will raise many fundamental questions, including:

- Looking beyond the current price cap, what sort of protection should be in place and for whom?
- Should companies be allowed to specialise in whom they serve and focus on what they are good at, while ensuring that all consumers continue to have a universal entitlement to supply? And should consumers be able to contract with multiple suppliers per meter?
- In a less concentrated, increasingly differentiated retail market, are there functions that could be removed from suppliers' obligations and delivered in some other way?
- If the role of intermediaries does grow, are there aspects of their activities that should be subject to sectoral regulation?
- And how can we ensure that the central infrastructure of technology and standards underpinning the retail market is robust yet responsive to change?

We will consider these questions, as we do in all our work, through the lens of the long-term interests of consumers.

As you may know, we are currently working jointly with the government to review the retail market arrangements.

While I cannot say yet that we have definitive answers to these questions, we have identified three priorities that our future regulation of the retail market must address.

- First – new consumer protections must reflect market changes and the risks posed by new services and market players.
- Second – specific safeguards must guarantee that customers receive at least a minimum level of service and are protected from exploitation.
- And last but not least – whilst consumer protections must be robust, regulation must also unlock the full benefits of innovation for consumers.

In order to be able to do this, Ofgem as an organisation we must become more agile and quicker at tackling situations where consumers suffer harm, or where innovations that benefit consumers are blocked.

In other words, our goal is that innovation meets customer needs in the future – including the needs that arise in a more complex energy market.

As we continue to work through these issues, we welcome and value the input and experience that consumers and their representatives can bring to bear.

The challenges that I identified earlier are especially acute when it comes to consumers in vulnerable circumstances.

Since I became Chair of Ofgem, I have made it a priority to meet with vulnerable consumers and their representatives, as has the rest of our Board.

I have been invited to attend individual consultations with a debt counsellor, and been acquainted face to face with the energy problems which families with disabled members face

I have visited a food bank which, supported by npower, distributes energy vouchers on an emergency basis

I have visited a community energy project which is blitzing a neighbourhood with more than its fair share of disadvantaged consumers, knocking on every home to offer advice and help.

I have seen the joy of a couple who overnight became able to enjoy a warm home, as the result of a new gas network connection and affordable central heating

In other words my colleagues and I have listened to consumers themselves, and heard their stories and the challenges they face in their own words.

It has brought home to all of us not just the varied and painful circumstances in which consumers can find themselves, but the fact that energy is an essential service.

Indeed, warm homes may be most needed by those least well equipped to spend time and effort seeking out good deals or resolving problems – for example people who spend a lot of time in their home because they are elderly, have chronic health conditions, or have very small children.

I sincerely acknowledge the contribution which energy companies and their many caring employees make to help people with specific issues of energy vulnerability: for example by combining home gas inspection visits with a referral system to other agencies which can help with specific problems.

Unfortunately these programmes, welcome as they are, are not infinitely replicable.

Nor do they remove our responsibility, as the regulator, to develop a strategy that deal with specific issues of energy vulnerability

This cuts across almost all parts of Ofgem.

Funded through our price controls, networks run schemes like the Fuel Poor Network Extension Scheme that reward network operators for connecting households to cheap sources of heating.

In E-Serve we deliver the Government's Warm Homes Discount scheme, and the Energy Company Obligation, which is increasingly focussed on improving energy efficiency for those in fuel poverty.

And in our retail work we require all suppliers to treat their consumers in vulnerable circumstances fairly.

Coordinating these efforts and ensuring a coherent approach, is our Consumer Vulnerability Strategy.

As you will know, in 2013, we were the first regulator in Great Britain to publish a Consumer Vulnerability Strategy.

While we have achieved good outcomes in a number of areas through increased consumer protection policies and enforcement action, more remains to be done.

It is also particularly pressing to make our strategy focus on getting good outcomes for vulnerable consumers, given the changes to the market that I talked about earlier.

In early summer therefore, we will publish the second iteration of our Consumer Vulnerability Strategy, which will set our approach until 2025.

Through engagement with a wide range of stakeholders we have identified five key themes that we believe the strategy should address:

- improving identification of vulnerability and smarter use of data;
- supporting those struggling with their bills;
- improving customer service;
- encouraging positive and inclusive innovation; and
- working with partners, such as government, other regulators and consumer groups, to maximise our impacts.

We hope that these themes will serve as a guide for specific interventions across all the work which Ofgem has underway or is planning.

And when we publish our consultation, we welcome your views and feedback – both on the themes that we have identified and their practical application in our day-to-day work.

This is, undoubtedly, a big challenge.

A big challenge for us, as the regulator.

And a big challenge for everyone

- in the industry, which will ultimately have to deliver much of the change we need to see,
- for consumers, to whom we are immediately accountable,
- and for their representatives, such as Citizens Advice.

But it is also a huge, exciting opportunity – with the prize of creating a more sustainable, more innovative, more competitive and fairer market.

In the interests of all energy consumers, it is a prize that Ofgem is determined to seize.