

## Mary Starks' speech at the ElectraLink Host: Energy, a market in transformation event

Thank you for inviting me to be the keynote speaker today.

I joined Ofgem just over 6 months ago from the Financial Conduct Authority. And so in many ways I come to energy with an outside perspective and off the bat I want to share some initial observations:

- The industry is incredibly future focussed – in nearly every meeting I've had, be it with suppliers, code administrators, government officials – the energy transition (and the need to facilitate it) has been a main topic of conversation
- Despite this the energy market, structurally, has barely changed since privatisation – yes there are more players now and we have made improvements within the current market structure (like improving switching times from 6-8 weeks down to 3 and improvements in settlement) but fundamentally the retail market architecture has not changed. Perhaps until now it hasn't needed to.
- The next few years are fundamentally important – this is our once-in-a-generation opportunity to work together to put in place the right framework to deliver the market of the future

I will focus my speech today on the future energy market, and the last of my observations: what we have to do together to get there.

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I want to start by painting a picture of the average energy consumer experience in the future.

Our strawperson is living in the mid to late 2020s. Smart meters have been fully rolled-out (except to those who don't want one of course), there is mass electrification of transport and heating too, there is more intermittent and embedded generation, network prices are more localised, and the price cap has been lifted.

Our straw person has an electric car. They were incentivised to buy this, not only for environmental reasons, but also because it came with a bundled energy deal specifically for EV owners.

The day after they purchased their car, they were switched to their new energy supplier. This new supplier uses the customer's smart meter to dynamically set their time-of use-tariff.

This tariff has a special low overnight EV-charging rate that is used for a 4hr window that moves each night. Their smart meter communicates with the EV charging unit which is automatically switched-on when the low-rate is activated by the supplier.

The straw person has also entered into a subscription reward service with a demand aggregator. They give this company access to their smart meter and home appliances. The aggregator can turn-off the straw person's white goods (which are no longer white) for no more than 20 minutes at a time, no more than twice a day. The electric car is excluded. For entering this deal the consumer gets free cinema tickets, and half-price deals at partner restaurants.

The strawperson controls all this through a third party app which they've decided to share their data with. As well as pulling data from the smart meter, it also pulls data from the supplier and the demand aggregator to show all the strawperson's energy stats and savings.

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What are my reflections on this vision?

One – it is genuinely exciting.

Two – one of the first things I said in my pen-portrait of the future is that the price cap is lifted. The cap will be lifted in 2023 or sooner if the right conditions are in place. However it is possible that if these are not in place by 2023 the legislation could be extended.

What are these conditions? It is that the retail energy markets deliver better outcomes for more, far more, consumers. For this to happen more people need to engage with the market and for this to happen the market needs to become more consumer-centric and offer more personalised services.

Three – consumers will have many many more decisions to make. Currently, choosing a supplier is essentially the only choice consumers make. In the future they will have this but also:

- when in the day to use energy
- what kind of tariff do they want – for example a bundle including energy or other household services
- whether to invest in things like smart technologies and storage
- who to share their data and if so with whom

Having these choices is critical to engaging more people but we must recognise that there will be some consumers that cannot or will not want to make these choices. We will need some backstop protection for those least able to buy well, but the market should deliver a good deal for most people.

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I want to focus on how we get from where we are today to the energy future I just set out.

Our role as a regulator will be to enable transition. This means working with industry to deliver change programmes that put in place the systems required for a greener and smarter retail market.

And we must also look at the rules which underpin the market and ensure they allow for the innovative products and services we all want to see whilst still providing adequate protection for consumers.

I'll take each of these in turn.

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First – system and infrastructure change programmes.

We continue to believe that smart meters are a transformative technology that are critical to the energy transition.

It is a crucial time for the roll out as it really ramps up. We will therefore continue to support the Government by monitoring suppliers' roll-out plans and undertaking compliance activity where necessary to ensure suppliers are held to account.

I want to make clear that suppliers should expect us to be more vocal in calling out those that are letting their customers down. This isn't restricted purely to whether suppliers are installing enough SMETS 2 meters – and these should be the norm now – but also the quality of the installation experience, for example in terms of energy efficiency advice.

On this, SMICOP, and Electralink in their role as secretariat for the code, has an important role to play in driving up individual supplier performance.

The vision I described was one where households can participate in the market dynamically. As well as smart metering this requires half-hourly settlement. We have already made progress on this through work to enable elective half-hourly settlement and we are seeing some promising signs around uptake of this.

However to fully realise the benefits of smart metering we need to ensure that by the middle of the next decade the whole market is moved over to half-hourly settlement. This will require significant industry support and we hope you will continue to engage with the programme.

I've spoken about the importance of more people engaging in the market. For this to happen we need to make it as easy as possible for people to switch and so remove as much friction as possible. Our Faster More Reliable Switching programme aims to do this and continues to make significant progress.

The Programme is about to enter the design, build and test phase and so we need everyone in the industry to make the necessary preparations and we are establishing a cross-industry governance structure to ensure that happens – so you've been warned!

The new systems being implemented by DCC have been designed from the outset to be flexible and easy to change – this is key for the market and central to the project.

The final part of the vision I want to mention is data. In the future world consumers will have much greater access and control of their energy which they will be able to use to access new products and services. This will surely benefit competition.

To enable this we are working with government on the "midata" project, which will provide customers a secure way to quickly and easily give trusted third parties access to their energy data. This might be by shopping around directly, using an auto-switching site, or through other forms of intermediation – like Alexa or its equivalents.

We want to work with industry bodies, particularly the code administrators, to make sure that midata aligns with existing data access initiatives, for example we should use common API standards, and develop consistent consumer experiences. We need your input and involvement to ensure this happens.

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As well as progressing these transformative programmes, we need to ensure that the rules underpinning the market enable the greener, smarter more flexible market of the future.

As I've said, Ofgem's role in the transition will be an enabling one. For instance through the Innovation Link we are supporting businesses looking to launch new energy products, services and business models understand the rules, test their offerings and, ultimately, enter the market.

The feedback we've received through our interaction with innovators has been unequivocal: the current system of regulation is standing in the way of new propositions coming to market. They particularly stress that the number of codes is too complex and the rules are hard to navigate.

I think everyone in this room would also agree that achieving change within the current codes structure is challenging. As well as being too slow, where reforms require changes across multiple codes, it can be difficult to do this in a coordinated fashion as the codes are too fragmented.

It is clear to me that the current system is not fit for purpose and, without reform, the current code governance framework could delay all aspects of the energy transition. I want to stress that I do not think this is the fault of any single code body but rather the system we are all operating in.

So what would good look like?

- Codes will need to be clear, accessible and less complex than they currently are
- Codes, and their related systems, will need to pro-actively adapt to the changing energy system: code change needs to be strategic, forward looking and in line with the government's strategic direction
- Significant change will often come from companies outside the current energy sector, so code change needs to become agile and inclusive, and reflect emerging best practice in regulation
- New entrants and innovators need to be able to propose changes, which can be acted on if they are in consumers' interests. It should be possible for change to happen more quickly, and incumbents shouldn't be able to hold up the process for vested interests.

As announced by the Secretary of State last year, the government is working with Ofgem on a review of the retail market arrangements – including the code governance structure – and ministers stand ready to legislate to enable vital reforms where necessary.

In the summer, we will publish preliminary findings from the joint review. I appreciate you may want me to give views on what this will mean for code bodies but I will not prejudge the outcome of the joint review. However I don't think it would come as a shock to hear that we can expect some consolidation but I won't speculate on the final number of codes.

Within this context it may seem inconsistent that we have recently established a new code – the Retail Energy Code – for the new switching arrangements. However we are committed to consolidating the existing retail codes into the REC. We are also setting this up as a model of best practice for the future which means it will have improved governance so it is more supportive of change and innovation; it will be supported by a more proactive Code Manager; it will use machine readable formatting; and be written in plain English.

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The final thing I want to talk about is consumer protection in the future energy market. As I said, this will be vital to ensure no consumers are left behind by the digitisation of energy.

In the future market, consumer protection must be innovative and targeted to the needs of consumers. Protections must help consumers navigate and engage with the broader range of propositions available.

Accurate and consistent identification of consumers in vulnerable situations will be critical.

Code bodies already have an important role to play in this space. I know that over 2017 and 2018 the relevant codes were modified to support the alignment of Priority Services markers thereby allowing suppliers and networks to share consistent data on consumers in vulnerable situations.

Data sharing in this way is so important in helping companies identify consumers in vulnerable circumstances and then tailor their services towards them. However more can be done, a key theme we have identified in our work on the Consumer Vulnerability Strategy 2025 is that improvements can be made in using smart data to support better identification of vulnerability. We will be pushing industry on this and expect you to let us know what we can also do to help.

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I started by saying this is our once-in-a-generation opportunity and I did mean our.

Ofgem can't make a success of the transition alone and neither can industry.

We need to collaborate better than we have done in the past on both the reform programmes and also in designing the rules of the game. Sometimes this will mean putting aside our own self-interest and acting together for consumers.

I hope we can look back sometime in the mid-2020s and see that we all rose to this challenge.