

## Martin Cave's speech at Utility Week Energy Summit 2019

### ***Check against delivery***

Good morning, Ladies and Gentlemen,

Thank you for inviting me to join you at the start of your conference.

As we know only too well at Ofgem, Utility Week is always at the centre of the debate.

And with the range of speakers and sessions you have planned, I'm sure that today will be no different.

I'm delighted, in particular, to be speaking in the same session as Joanna Whittington and Laura Sandys.

As you will know, over the next decade, the energy system will undergo a fundamental transformation as the processes of decarbonisation, digitalisation and decentralisation progressively manifest themselves across the system.

So in my remarks today, I want to set out our approach to this new era of change into the 2020s.

Fundamentally, it is guided by our over-riding goal to protect the interests of consumers now and in the future, with particular emphasis on protecting the vulnerable, and using whatever means of intervention best reaches that goal.

We believe that these interests are best protected by an energy system that can attract investment and innovation and keep costs as low as possible, while also promoting sustainability.

Ofgem will thus focus on three key objectives for consumers:

- First, enabling competition and innovation which drive down prices and result in new products and services;
- Second, protecting consumers, especially the vulnerable, stamping out sharp practice and ensuring fair treatment;
- Third, decarbonising to fight climate change at the lowest cost to consumers.

Let me start with enabling competition and innovation, which we believe will drive down prices and result in new products and services.

As I mentioned, over the next few years, the processes of digitalisation, decarbonisation and decentralisation are likely to radically change business models – creating new costs and benefits and changing the way consumers interact with their energy provider.

Closer to home, important change programmes at Ofgem like the Future Charging and Access Review, RII0-2, Future Retail Market Design and half-hourly settlement will fundamentally change the way the market operates.

Our underlying approach to innovations, which improve the situation for consumers, is to encourage them.

We aim to achieve this in two principal ways:

First, by facilitating innovation.

We will remove barriers to new business models in the regulatory framework and will act to increase cost-reflectivity to create price signals and value for consumers who are able to shift load.

New technologies, such as storage and intelligent demand control, will provide viable alternatives to building ever more network and generating capacity to manage system peaks.

This will benefit all consumers by making the energy system more efficient, but we recognise some may benefit more than others.

Second, we seek to use markets to drive down costs.

As well as making the retail market work more effectively, we will expand our use of competitive frameworks across network regulation.

We will make greater use of tendering and competition for onshore networks.

We will also create a level playing field so that networks and non-network alternatives can compete.

Markets will also combine supply and demand in new ways, enabling competitive pressure and differentiation across more of the energy value chain.

This innovation will, we hope, reduce costs to businesses and consumers and help make better use of networks and other existing energy assets, saving money for everyone and improving service standards.

As Laura will no doubt set out, improving data quality and access to data across the energy system will be a key part of our approach to facilitating innovation.

In particular, if we are to decarbonise, we need more dynamic business models that enable the integration of renewables, and better matching of demand and supply.

Data is critical to this – both to the sector, and the manner in which we regulate.

So we need better quality and more accessible energy system data.

We are really pleased with the work of the Energy Data Taskforce, which Laura has chaired, not least for the enthusiasm and momentum for change it has generated in the sector.

And I believe that both Ofgem and BEIS are committed to driving change – and indeed have begun to improve data collection, infrastructure, processes and management.

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

It is likely that a future energy system that works well for consumers will be more participatory, with a blurring of the boundaries between producers and consumers, between wholesale markets, systems and retail markets.

There will also be diversity in the types of companies operating in the sector, which will offer consumers a broader range of products and bundled energy services across heat, power and transport and other utilities.

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.

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That leads me to our second priority: protecting consumers, especially the vulnerable, stamping out sharp practice and ensuring fair treatment.

Energy is an essential service.

Warm homes may be most needed by those least able to expend 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.

Ofgem recognises that vulnerability can take many forms, and pays very close attention to the needs of vulnerable customers and the views of the organisations which speak for them.

This cuts across almost all parts of Ofgem.

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

We also administer the Government's Warm Homes Discount scheme, and the Energy Company Obligation scheme, 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.

Given the scale and pace of the change that we are seeing, this a crucial moment for us to reassess our priorities to ensure vulnerability challenges are addressed and these consumers are not excluded from the benefits of the changes I've described.

As a result, today we have published for consultation our updated Consumer Vulnerability Strategy.

When finalised, the strategy will build upon the work delivered under our 2013 Consumer Vulnerability Strategy, and will set out our priorities to help protect gas and electricity consumers in vulnerable circumstances until 2025.

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

- Improving identification of vulnerability and smart use of data;
- Supporting those struggling with their bills;
- Driving significant improvements in customer service for vulnerable groups;
- Encouraging positive and inclusive innovation; and
- Working with partners to tackle issues that cut across multiple sectors.

These themes raise some big policy questions – and we look forward to hearing your views and feedback – both on the themes that we have identified and their practical application in our day-to-day work.

Ofgem's duty to protect present and future consumers expressly includes their interest in the reduction of greenhouse gases in the supply of gas and electricity to them.

Additionally, we must have regard in performing our functions to the need to contribute to sustainable development.

This leads me to our third priority: supporting decarbonisation to fight climate change at the lowest cost to consumers

As you will know, the last decade has seen major reductions in the carbon footprint of electricity generation – with carbon emissions falling by over half over that period.

Our view is that this will continue as prices of low carbon alternatives fall and the system adapts to make most efficient use of electricity through flexibility solutions, such as storage and adaptation of consumer demand to minimise overall costs.

This change will impact on wider sectors in the economy. For example as the take-up of electric vehicles increases, transport emissions will be reduced and flexible charging will allow consumers to benefit from lower overall costs.

In heating and industrial energy use, increased electrification could build on this trend. Similarly, the use of district heating and the conversion to low carbon gas – through biogas and/ or hydrogen -would substantially reduce carbon emissions from heating.

With the Government having laid legislation yesterday to set the new net zero emissions target in law, there will be an increasing focus on decarbonisation and in particular in the transport and heat sectors.

Traditionally, policy decisions relating to decarbonisation, including arrangements to support non-fossil fuel sources of generation, have been made by the Government.

However, Ofgem has an important role in the way we administer the Government's renewable and energy efficiency schemes and regulate the energy market in minimising the costs of the low-carbon transition.

The decisions over how we change the gas and electricity network and create markets for new flexible solutions will be fundamental in ensuring efficient low carbon energy use.

Ofgem's role in assessing the trade-off between current and future consumers' interests – between cheaper prices now and more sustainability - will come into greater prominence.

We already investigate the impact on sustainability of major policy decisions.

For example, in our work on the allocation of fixed network costs in the targeted charging review, we calculated the impact on sustainability of our proposed changes (designed to enhance efficiency over the whole value chain), and found them to have a positive effect.

This assessment sat side-by-side with our estimation of their impact on prices for energy paid by different classes of consumer.

However, in these new circumstances we will probably have to take a more active role in building Great Britain's low carbon energy system – in the interests of future consumers. This will involve:

- ensuring that our individual decisions on network price controls and new retail arrangements and network charging all support the efficient rollout of new sustainable technologies, such as electric cars and low carbon heating;
- efficiently administering a large part of the existing renewable generation and energy efficiency schemes;
- factoring in environmental impacts into all of our ongoing significant regulatory decisions; and
- as a first step, Ofgem will review the guidance given to its teams to ensure that environmental impacts are robustly assessed.

As the sector around us changes, so too must we – and not just in what we do, but how we do it as well.

We are developing a more agile way of working, which is more project-based and less durable in structure, with teams forming and reforming more often, retaining professional specialisation where necessary and exhibiting multi-disciplinary ways of working.

We expect such agile teams to operate in a more decentralised way and with more autonomy, sharing of knowledge and joint internal decision-making.

This will work out in different ways in different parts of the organisation.

But one change will be common to all: our ways of receiving, holding, processing and using data must be improved as a complement of greater agility.

And it will mean economising on some activities, and acting with greater speed and flexibility in response to rapid and sometimes unexpected changes – while seeking to avoid unpredictability by signalling our direction of change in advance, and preserving our tradition of wide and transparent consultation.

As recent history has shown us, making predictions about the future is, particularly in the energy sector, often a dangerous game.

And we cannot know how the future will evolve, nor is it our role to determine it.

But we can be confident that the pace, intensity and indeed unpredictability of change in the sector – driven by technological advances and the imperative of tackling climate change – will increase.

As an industry – and as the regulator – we must keep pace with it.

Consumers deserve no less.

Thank you.