

Intro

Energy is at the forefront of public debate again. We're very aware of the concerns being voiced about the market at the moment. Energy is an essential service, and we understand consumers' concerns about energy prices.

Much has happened in opening the market up to competition. With more suppliers to choose from, and more innovative deals out there than ever before, we've got some building blocks in place for a truly dynamic market.

The question for Ofgem is – 'does it deliver for consumers?'

At the moment, we can only say that it does 'for some.'

And, of course, that's not good enough. Our job is to make sure that the market delivers good value and service for all consumers.

So our task as a regulator is to work out how to bridge the gap between our aspiration and reality.

This morning I'm going to talk a bit about where we are, where we're going, and what we're going to do to get there.

The progress we've made

Today consumers face more choice than ever before. The pace of change is rapid – there are over fifty suppliers in the domestic market, more than double the amount in 2015. Small and medium suppliers now have their highest ever market share – over 17 per cent of customers, according to our forthcoming 'State of the Market' report.

There are some very good deals out there, and an impressive selection of tariffs. It's possible for consumers to choose to be supplied only by renewables, for example, or choose when to use their appliances based on the cheapest time of day – behaviour we'll see more and more of in the future as the smart meter rollout enables our transition from a 'dumb' to a smart, data rich energy system.

Meanwhile, our data shows that the total number of complaints received by suppliers fell by a third last year, dropping from around 5 million in 2015 to 3.5 million complaints in 2016 - the lowest in three years.

This is a good sign that when consumers do vote with their feet, and walk away from suppliers who don't deliver, it drives up standards across industry. However, we're also very aware this is by no means always the case.

The upsides for consumers of engaging with the market are clear.

The question, of course, is whether they actually *do* engage or not – and this goes to the heart of whether the market is delivering for consumers.

The Competition and Markets Authority found that it largely was not, when they identified that 17 million consumers were on their supplier's standard variable or 'default' tariff – often the most expensive.

Well, since the CMA's investigation, some real progress has been made on reducing the number of customers on these poor value tariffs; our data shows that since 2015 the amount of customers on them has fallen by around five million, to 12 million customers.

This is because, as a result of increased switching, there are now two million fewer consumers on these tariffs. Meanwhile, Ofgem has introduced a safeguard tariff covering over three million prepayment customers' standard tariffs.

We're also seeing real signs that more consumers are catching the switching habit, resulting in 4.3 million switches to different suppliers in the first half of this year alone – an increase of around 13 % compared to the previous year. Even more customers are switching tariffs with the same supplier.

Given this, we're expecting to see the number of consumers on poor value standard tariffs fall further by the end of the year.

The challenges ahead

We are committed to ending the 'two-tier' market identified by the CMA, and the detriment caused by it. And, whilst we know wide price differentials between extremely poor and good value tariffs exists in other markets, such as insurance, we are determined to end this practice in energy.

Our vision is for a market where all consumers have the tools, and - importantly - feel empowered enough, to make active choices about who their supplier is or what tariff they're on.

There's still a very long way to go.

Regardless of the progress that's been made, 12 million households remain on their supplier's default tariff. Of these, over 8.6 million haven't switched supplier in three years. And over a third of customers, 34%, have never switched supplier according to our Consumer Engagement Survey.

The majority of these will be paying more than they need to.

Shamefully, for industry, it still tends to be the people who'd benefit the most from switching who are the least likely to shop around. Those who can least afford it, are often the most likely to pay more than they need.

It costs them dearly. The Office for National Statistics found that last year low-income households spent 9.7% of their budget on energy bills whilst those with the highest incomes only spent 2.9% (ONS: Family Spending 2017).

We also know that, even when consumers do engage, things go wrong all too often. In their final report, the CMA noted that a third of consumers felt they had difficulties with their switch, with 11% experiencing delays. At the moment, it

takes between two and three weeks from when a customer confirms they want to switch to when it actually goes through.

In part this is due to clunky industry systems built in the last century and inaccurate industry data.

This helps reinforce the widespread perception that switching is a hassle and is totally unacceptable. I will come onto the actions we're taking to sort this out shortly.

The action we're taking

So we come now to the question - 'what is Ofgem actually doing to address these problem?'

Well, we've already seen a mixture of vigorous competition and targeted price regulation bring down the number of customers on poor value deals.

We heard news from E.ON this morning that they will be moving their smart meter customers off standard variable tariffs and onto fixed-term deals. We welcome E.ON's move to take action on poor value standard variable tariffs, and hope that other suppliers follow their lead – with the important caveat that these customers must now genuinely benefit from a significantly better deal, and not just a rebranded poor value tariff.

For the regulator, it's a question of knowing when to give the dynamic, competitive market the space to evolve. When to inspire and empower consumers to engage, and to give them tools they need to do it.

Or, in the case of society's most vulnerable consumers, when to step in and say 'enough'.

We're taking action on many fronts.

Firstly, we're reaching out to consumers with a radical new series of measures to make it easier than ever to switch to a cheaper tariff or supplier.

We're targeting those who find it difficult to do this on their own. Under the plans – which are already being trialled with thousands of consumers – suppliers will be required to take concrete, practical action to help consumers move to cheaper deals.

This could include: suppliers sending targeted, personalised communications to consumers on poor value tariffs telling them how much they could save by switching to the cheapest deals available on the market, as well as providing better information on existing communications, such as bills, with more effective prompts to switch.

We are also trialling a new simplified online switching service so that consumers can check how much they can save at the click of a button.

Secondly, for those who are in debt but still want to engage, we've also made changes to the rules. Now customers on a prepayment tariff can be in debt up to £500 and still change supplier to get a better prepayment deal. We expect to see more of these customers switch and reap the rewards of competition as a result.

And thirdly, behind the scenes, we are overhauling the system to make switching faster and more reliable.

This means working with industry to synchronise and simplify switching processes and to put in place a central registration system. This will hold centrally, and validate, data on all gas and electricity meter points across Great Britain, so that all suppliers and price comparison websites can easily access the accurate information they need to make each switch go smoothly.

We've set a clear target for 'faster switching' by 2020. We want consumers to be able to click a button on a price comparison website one day, and be receiving energy from a new company by midnight the next.

To be clear, delivering reliable faster switching will not be optional. Suppliers will have to move at the pace we set.

In the meantime there is more that suppliers can, and should, do to make switching go smoothly for customers. Suppliers must make sure they hold accurate, accessible data, to reduce the risk of switches going wrong, and make sure customers can easily get hold of the information they need to get a better deal.

Many suppliers have already signed up to the Energy Switch Guarantee, which makes sure they take care of customers who switch to them, dealing with any problems that arise so that the customer doesn't have to.

We want all suppliers to sign up - and there is no reason why they shouldn't do so.

We stand ready to take action on these issues if we don't see suppliers raise their game.

The changing energy system

Turning now to the bigger picture, it's clear that Britain's energy system is undergoing a deep and wide-ranging transformation. The pace of this transformation – and the potential for genuinely different and innovative ways to do things for the benefit of consumers – is greater than ever before.

Suppliers must be aware that in tomorrow's energy market, suppliers may no longer exclusively 'own' the relationship with consumers who may choose to interact with different providers instead.

Intermediaries trawl an increasingly complex and innovative market on customers' behalf to find the best deal for them. Simply by making it easier to switch, these sorts of services offer massive benefits for disengaged consumers. Local energy, multi-utility billing and 'concierge' services all add to the rich mix

of services that make possible a different kind of relationship with the energy system.

Smart meters, of course, will provide a gateway to these services for consumers.

Our role is to shape and accelerate this transformation, fostering innovation, whilst making sure the strongest possible consumer protections are in place.

Our Innovation Link is one way of doing this. It provides a one stop shop for fast, frank feedback on energy regulation to organisations who want to develop a new product, service or business model that could benefit consumers. It gives businesses and individuals a better understanding of the regulatory implications of their proposals and enables them to make more informed choices.

And, it helps us to understand ways in which the current regulatory arrangements will almost certainly need to change in order to help realise the full benefits of innovation for consumers. Since its launch last December, we've supported just over 100 innovators.

Meanwhile, we want to encourage all suppliers to innovate, leaving space for technological development at the same time as strengthening consumer protection.

So, we're rewriting our rule book. We're taking out pages of prescriptive detail, and replacing them with tough new overarching requirements such as not misleading customers during selling and marketing, and treating vulnerable customers fairly.

These set out exactly what we expect for consumers, whilst putting the onus on suppliers to work out how to get there.

We know from experience that these principles are more compatible with innovation and harder to circumvent.

Protecting vulnerable customers

Finally, I'll return to what is a real priority for Ofgem; protecting vulnerable consumers.

We know that people in vulnerable situations often face many difficulties.

They may not have a bank account or an email address, or struggle to deal with other aspects of switching – such as submitting personal details.

These people will be unlikely or unable to switch for a better deal. Ofgem needs to make sure these customers are protected, not exploited.

So, as I'm sure you're well aware, we are setting out plans to introduce a safeguard tariff from early next year, which will protect vulnerable customers from paying more than they need to.

We will be making an announcement soon about this, along with our wider plans for the retail market, in the coming weeks. You'll forgive me if I don't go into the details today.

There are many measures that we need to take to get the retail energy market to deliver for consumers in the future.

We are very clear, however, that it must deliver for *all* consumers. We won't let up our resolve until it does.