

Ofgem chief executive Dermot Nolan's keynote speech:

'Innovation for all consumers' at Sustainability First's Project Inspire report launch event in London, January 29 2018.

I'm delighted to help launch the Project Inspire report today.

We all know the UK's energy system is undergoing a significant transformation.

The way that consumers use and pay for energy is changing, particularly with the roll-out of smart meters.

It's understandable to be excited about the technological advances which are making this possible.

What gets less attention however is how new "smart" and digital technologies can improve the everyday lives of vulnerable energy consumers.

The Project Inspire report seeks to address this.

It asks whether energy companies are innovating and using technological advances to help their vulnerable customers.

Two messages come across loud and clear.

Where industry steps up to the plate and innovates for these consumers it can bring about real and positive change.

But this tends to be the exception rather than the rule.

This isn't good enough.

We are committed under the Smart Systems and Flexibility Plan to create an energy system that works for all consumers - now and in the future.

I want to reaffirm that commitment. Because when we say all consumers, we mean all.

If some vulnerable consumers are left behind by technology and innovation, then it simply isn't fit for purpose.

I'm going to talk about vulnerable consumers current experience, what the Inspire report has found, and then address some of the recommendations it makes for Ofgem.

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Protecting vulnerable consumers is a priority for Ofgem. It's set out in our statute. But this begs the question, what is vulnerability? It's a question I'm often asked. I answer, 'there is no one size fits all.'

Age, bereavement, sudden job loss, disability; all these varied and individual things make consumers disadvantaged in the energy market and less able to manage their energy day-to-day. Customers often face multiple issues – for example if they are struggling to pay their energy bill, chances are they are struggling to pay other bills.

This recognition underpins all our rules on how industry should treat their vulnerable customers.

And why does vulnerability matter when it comes to energy?

Energy is an essential service.

Our first annual State of the Market report, which we published in October, shows that those on the lowest incomes are the least likely to switch supplier and get good deals.

Those that can least afford it spend three times as much of their budget on energy bills than the best off (ONS 2017).

And that fuel poverty is affecting children and young people particularly.

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So are energy companies doing enough to help their vulnerable customers – or are they still part of the problem?

I want to acknowledge that industry has made some progress.

Fewer people are in debt, and disconnections have fallen. Suppliers reduced the average weekly debt repayment rates for customers with prepayment meters following our intervention.

Record numbers of customers are on suppliers' 'priority services registers', receiving free help and advice to manage their energy day to day – for example gas safety checks.

In other areas, we feel that some suppliers are still falling short.

When it comes to debt, for example, our annual vulnerability report in October found that suppliers were still not spotting at-risk customers early enough or putting them onto tailored repayment plans. As a result, severe debt has grown, with customers owing on average more than £600 before paying debt back.

This is unacceptable. I'm encouraged to say that we have seen progress from some of these poor performers and we will provide an update in our next vulnerability report.

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I'm going to turn now to Project Inspire.

This is an important report. The case studies in it show that it's possible for energy companies to innovate - and to innovate well - for vulnerable customers.

To pick out a few; SSE's sign interpretation service helps hearing-impaired customers to communicate in real time through video technology with their supplier. It's a simple but extremely good idea, which British Gas and WPD have now taken up too - proof that useful innovation can and does spread throughout industry.

Npower's 'fuel bank' scheme, which provides food bank customers with emergency top-up vouchers, is a good example of the things that companies can achieve if they partner up with charities.

Utilita uses data from smart pre-pay technology to spot, and give support to, customers who self-disconnect.

These along with the many other examples in this report prove that technology and innovation can improve – even transform – consumers' lives.

It's obvious too that it's in companies' interest to innovate.

Millions of consumers are currently disabled and long-term sick, for example. The Research Institute of Consumer Affairs' is piloting the 'Rate It' website to enable

disabled customers to rate energy products online. Products like this will force suppliers to compete more to offer services that these customers want and need.

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However, it's clear too that parts of industry are woefully behind on these messages.

The report finds that these are isolated examples, and the vision of 'Innovating for all' remains the exception.

Only a minority of companies have, for example, mechanisms in place to spot good innovation, let alone take action on it – especially when it comes to getting ideas from other industries or sectors like charities and consumer groups.

In some instances, companies simply seem to lack the will. I was particularly concerned by a few suppliers' comments that they see innovation on vulnerability actually slipping down their agenda, which they blame on competition and the weight of regulatory change. Others say that they don't see the commercial benefit of innovating, so don't do it.

Some suppliers have already started speculating that an energy price cap could cause them to cut back on customer service. Suppliers should not doubt that price regulation cannot be an excuse to ignore their obligations to vulnerable customers.

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Now, I want to talk about some of the recommendations that this report has for Ofgem.

Network companies have a vital role in making sure that the future energy system works well.

Our network regulation rewards companies for quality innovations that demonstrably improve service for all customers, including vulnerable customers.

These incentives, as the report recognises, have driven real innovation for vulnerable customers by network companies.

However, there's much room for improvement.

The report challenges Ofgem to include specific vulnerability incentives, building on the incentives in RIIO-1, in our next round of price controls, RIIO-2, which we are currently planning.

We're actually exploring what future vulnerability-related outputs and incentives might look like, and will take into account lessons learned from RIIO-1.

Our door is open and we welcome recommendations.

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Turning now to the retail market.

The report challenges Ofgem to embed a vulnerability culture with new market entrants, including making them demonstrate that they can meet our rules as part of the supply licence.

To respond; suppliers now meet us when they enter the market, to make sure they understand our rules around vulnerability and that their products and services meet vulnerable consumers' needs.

But we want to go further, working to embed this culture and a spirit of innovation with all suppliers.

Our new 'vulnerability principle', which affects all suppliers and requires them to identify vulnerable customers and give them extra support where needed, gives us the tools to do this.

It puts the onus on suppliers to work out the best way to put vulnerable customers at the heart of their business, and gives them flexibility to innovate. It gives us the regulatory heft to take action if they fail.

Lastly, the report also challenges us to publish more comparative data on suppliers, to make it clearer how they measure up on vulnerability.

We are committed to doing this, through for example our new suppliers' league table of poor-value default tariffs. And, as anyone who was familiar with the press release for this year's vulnerability report will know, we are prepared to call out or 'name and shame' companies who are failing their vulnerable customers.

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The report focuses on how energy companies can come up with new ways to help vulnerable customers, for example by offering specific services to meet their needs.

But the cost of energy is critical when it comes to exacerbating vulnerability.

So Ofgem is extending our prepayment safeguard tariff to almost 1 million vulnerable households who receive Warm Home Discount from February 2 to protect them from overpaying for their energy.

We are planning to extend this to a further 2 million vulnerable households next winter depending on the timing of the Government's planned price cap for Standard Variable Tariffs and default deals.

The Government's current draft bill states that its price cap for Standard Variable Tariffs and default deals is temporary and will end in 2023.

This will allow time for reforms designed to improve engagement to be put in place.

But we accept that however easy it becomes to engage in the market, there will always be some households, particularly the vulnerable, who struggle.

We may well decide to leave in place price protection for the most vulnerable after the wider price cap is withdrawn – we will carefully consider that decision.

What is certain is that energy is an essential service, and vulnerable customers will always need to be protected by their suppliers.

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We've seen today that, where they choose to, energy companies can innovate really well for their vulnerable customers.

It's in industry's interest to improve and innovate and provide them with the best possible service.

We're opening up the market to new technologies and business models. And others will step in, where existing companies fail to give their customers the service they need.

But it's not an optional extra for energy companies to help their vulnerable customers.

It is part of their licence condition. Ofgem will take enforcement action where companies don't.

Change is coming to the energy sector.

Whether companies like it or not, Ofgem will make sure that this is a positive change for vulnerable customers.