
Mary Starks's keynote speech at the Future of Utilities: Smart Energy conference

Mary Starks was delivering the keynote speech at the Future of Utilities: Smart Energy conference in London on 20 November 2018.

Good morning.

I joined Ofgem a couple of months ago, from the Financial Conduct Authority. My background is in competition policy, regulation, and economics.

I do have some prior experience in energy. In my 20s, I worked in consulting, advising on energy privatisation and liberalisation, in vogue at the time. But I've been out of it for a while now. So what's changed in energy since the heyday of privatisation and liberalisation? Quite a lot, it turns out.

Today I want to talk about 3 things.

First, the future. There are so many exciting developments on the horizon – it's what today's event is all about. We regulators aren't necessarily known for our future focus. So I want to talk about Ofgem's role in innovation and transformation.

Second, the retail energy market today. A market with such low public trust that we have had to step in and cap prices. Now, the cap is designed to be a temporary measure. But we need to think hard about the reasons we are in this position, if we are to work our way out of it.

So third, how do we get from where we are today, to where we want to be tomorrow. In particular, how do we rebuild and maintain public confidence through the transition.

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First – the future.

We know that the energy system of tomorrow will be greener, smarter, more flexible and more responsive.

The way we generate, use and store electricity is already changing.

Renewables' share of electricity generation was a record 32% in Q2 2018. In a few years' time, millions of us will be driving electric cars. Big data, generated and crunched by smart meters and other smart technologies, will help us balance supply and demand, and make the most efficient use of our energy system.

To meet carbon targets we'll have to change how we use gas too, heating our homes and businesses in a cleaner way.

There are some big choices ahead. Government will need to take key decisions around the generation mix, for example. While companies will take investment decisions. Those decisions will determine, for example, how far and how fast the cost of battery storage falls.

So what's the role of the regulator? At the highest level, it's the same job we've had ever since privatisation: ensuring energy markets serve the public well, while giving companies (and their investors) confidence in the rules of the game. In times of change, ours is primarily an enabling role – getting the conditions right to support innovation, discovery, testing what consumers want and how they want to buy it. And making sure the regulatory framework adapts to support change, rather than stifling it by enshrining current practice.

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Ofgem is involved in a number of programmes to make sure industry systems can support the changes I've talked about.

We are progressing work to introduce half hourly settlement, and are overseeing the roll-out of smart meters. Together with other technologies in the home, this will mean households can participate in dynamic electricity markets - charging their car when power is cheap, for example.

Ofgem is also working with government on the “midata” project, which will enable consumers to access data on how and when they use electricity and gas, and use it to find the best energy solution for their needs. This might be by shopping around directly, using an auto-switching site, or through other forms of intermediation – perhaps delegating to digital assistants such as Alexa.

Our reforms to network charging arrangements aim to minimise system costs through the energy transition. The Access Reform project is aimed at managing new sources of demand and supply on the system, such as electric vehicles, solar panels and batteries. While our Targeted Charging Review will ensure network costs are recovered fairly, as the way we use the grid evolves, as for example more local generation and storage connects at lower voltage levels.

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All this involves working with our stakeholders. And as we face a more dynamic, complex, and rapidly evolving energy sector, we need to work together even more closely.

The decisions we make will have far-reaching implications for consumers, businesses and for society as a whole. We need your help to make sure we get those decisions right. And to help us with questions that we have not even thought of.

So we want you to be part of the conversation about the future of energy, and the regulatory framework needed to support it. And we want to hear your views well before we develop detailed proposals for formal consultation. We have already begun early dialogue as we seek views on how best to reform the supplier hub model, for example.

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And we want to hear from all our stakeholders. Including start-ups and innovators - people with ideas about how to do things differently.

One of the ways we engage with innovators is via our Innovation Link, which provides fast, frank regulatory feedback on new ideas. We also have a

“sandbox” which helps innovators to try out new propositions – and test whether existing rules and codes can accommodate them.

So what are we hearing from this engagement? Innovators tell us, loud and clear, that codes are complex and hard to navigate. Not only that, but code governance makes it hard to implement change, and easy to block it. This is a concern, especially if it gives vested interests the means to block innovation that threatens the status quo.

Innovators have also told us that a system of regulation which enshrines rights and obligations under separate boxes marked "generation", "transmission", "distribution" and "supply" does not always work for them. What if you want to sell someone an EV as a service – vehicle, lease or finance agreement, and electricity – but you don't want to be in the business of selling them the electricity to power their home? Who knows whether consumers will ever want to buy such a service – but as things stand it's pretty hard to find out.

The Government has just announced a review of the energy system, including code reform. We'll be working closely with BEIS on that, and seeking your views. And in January, Ofgem will be hosting our first “future of energy” event – please, get involved and be part of the conversation.

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Preparing for the future is vital.

But we mustn't look so far ahead that we lose focus on the challenges in front of us today. Which brings me to my second theme. While the future of energy looks bright, the present, in many ways, is challenging.

Trust in the industry remains pitifully low.

According to a recent Ipsos Mori survey, just 30 per cent of people said they trusted energy companies, putting them behind retail banks and airlines among others.

And most customers feel it's hard work engaging with their supplier. Some 63% of those surveyed felt that in their last interaction they had to make more of an effort than their supplier did. They felt the burden was on them, rather than that their supplier was taking care of it. Again, this is worse than banks (41%).

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We have taken action to improve customer experiences in this market, and we will continue to do so.

Earlier this year we banned suppliers from backbilling for energy used more than a year ago. According to Citizens Advice, a typical domestic backbill was over £1000. But some households were receiving backbills for over £10,000, which needless to say caused serious distress and financial difficulty.

We have also stepped up our enforcement and compliance activities, particularly around customer service. Over the last few years complaints have come down significantly, which is real progress. But we're starting to see them edge up again, and that's a concern. We will not hesitate to take compliance and enforcement action as needed to address poor treatment of customers. We will shortly be consulting on reforms to our licensing regime to ensure that all suppliers, particularly those coming into the market, are financially viable and able to provide a decent level of customer service.

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Data is another area where we must not get too starry eyed about the future and ignore the stark reality today.

Someone asked me at an event recently whether I was optimistic about a data-driven future in energy. I replied that we won't meet the challenge of decarbonisation without smart, responsive systems - and those will rely on big

data. But that I was shocked when I learned about the state of data currently in the market. Shocked to learn that 1 in 100 switches go wrong. Because suppliers are routinely unable to reliably match meter numbers to addresses, and customers can end up switching their neighbour instead.

We are working hard with the industry to make sure data and systems are fit for purpose, particularly via our Faster, More Reliable Switching programme, but it's a big task.

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But low trust in the industry goes deeper than concerns over customer service or ropey data.

People lost confidence that they were paying a fair price. For a number of years, the bills of those on standard variable tariffs went up. While a savvy minority benefitted from cheaper fixed deals. That gap got bigger, seemingly with no justification.

And it is regressive. Those on low incomes, with low qualifications, living in rented accommodation or over 65 are more likely to be paying hundreds of pounds a year more for their energy than the rest of us.

According to the Competition and Markets Authority, in 2016 roughly 1 in 3 of those with a household income above £36,000 had switched supplier in the last 3 years. This compares to only 1 in 5 of those with household incomes below £18,000.

It is little wonder that there has been almost unanimous public – and political – support for a price cap to protect customers on standard variable tariffs from being overcharged.

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It is cold comfort to note that energy is not the only market in which this has been a problem. The CMA is investigating a “super complaint” from Citizen’s Advice which claims that – across mobile phone and broadband, home insurance, savings and mortgages, loyal customers are being overcharged by £4.1 billion per year.

The charity said that – as with energy – vulnerable consumers, who may struggle to switch, are the biggest losers. This highlights the growing disquiet in society that greater competition in many markets appears to come at the expense of fairness.

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So onto my third theme. How do we get from here, to an energy future we can get excited about?

The price cap on default deals is designed to be a temporary protection, while we work with industry and government on reforms to the market and wider energy system. I get asked fairly frequently, what are the conditions for lifting the price cap? At a high level the answer is very simple: we will be able to lift the price cap when retail energy markets work well for most people, not just for a savvy few. We may always need some backstop protection for those least able to buy well, but the market should deliver a good deal for most people.

I was talking to an energy innovator recently. I mentioned I had recently worked in financial services, where a very basic customer segmentation model is "Martin Lewis readers" and "everyone else". This guy had a background in tech, and said the comparable segment was "Shoreditch hipster" and "everyone else". But he then went on to say that he was not building his business for the Shoreditch hipster. He was building his business for the Birmingham bus driver. And maybe even the pensioner in Fife.

If you can excuse the stereotypes, this is a helpful way to think about the conditions for lifting the price cap. We will only be able to do that when we can be confident that the combination of market forces and backstop protections delivers a good deal to the Shoreditch hipster, the Birmingham bus driver, and the pensioner in Fife.

So, will the greener, smarter, data-driven future I spoke about earlier pass that test?

I think technology offers opportunities and risks. There's a huge opportunity for technology to take the hassle out. And we all want the hassle gone, life's busy enough. Witness the growing popularity of automated switching services that scour the market for the best deal on our behalf.

There are also opportunities to make much better use of data. Ofgem has been running a number of trials, testing ways to help consumers engage with buying energy. It's significant that the most successful of our trials to date – aimed specifically at customers who had not switched for over 3 years, ie the least engaged segment - was the simplified collective switch.

Customers were offered one deal secured by a price comparison website and told exactly how much they would save – all they had to do was agree to be

switched. Crucially, the offer was personalised, based on their usage data, provided by their supplier without the customers having to look up so much as a meter reading or account number.

The switching rate in the trial was over eight times higher than in the control group. Make better use of data. Take the hassle out.

But technology also brings risks. One concern is that in order to participate in the smart future, you'll need to invest. In an electric vehicle, or a wall battery, or a smart home heating system. New technology is usually taken up first by the affluent. With a fair wind, mass-market adoption is rapid and widespread, as it was for the smartphone. But we can't guarantee that. There's a risk of leaving some, or many, or too many people behind.

Another concern is that technology platforms that appear to put users in control can themselves amass a lot of power – Facebook, Amazon et al. “With great power comes great responsibility” (The internet tells me it was Spider Man's Uncle Ben who said that, possibly quoting Voltaire.) We need the powerful companies in the greener, smarter, data-driven future – be they energy companies, technology platforms, or someone else entirely – to be responsible businesses, to value and safeguard public trust.

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And what about the pensioner in Fife? I like to think there are pensioners zipping around Fife in Teslas. But realistically we must understand that some customers, including many vulnerable customers, may never want or be able to engage in the market, however easy it becomes and however many intermediaries are there to do so on their behalf.

Ofgem will work with the government to make sure there is appropriate backstop protection in place for them.

The challenge is to make sure that only a small minority of people need that kind of protection. If the average consumer, the Birmingham bus driver, is still at risk of getting ripped off, we'll all have failed.

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So we face a twin challenge.

First to rebuild customers' trust in the energy industry.

That means getting the basics right – such as reliable switching and decent customer service. And Ofgem stands ready to take action against any supplier who fails on that score.

Second, we need to make the greener, smarter, data-driven future inclusive. One in which as many customers as possible make savings and enjoy the new products and services available.

Ofgem will work with you to do this – we need your help.

Because when the default price cap is lifted, we can't – we won't - go back to today's state of affairs.

Because society will not accept it. We can do better.