



**Drax Group plc**  
Alder Castle  
Noble Street  
London  
EC2V 7JX

[www.drax.com](http://www.drax.com)

[Half-hourlysettlement@ofgem.gov.uk](mailto:Half-hourlysettlement@ofgem.gov.uk)

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### **Call for Evidence – Potential Consumer Impacts of Market-wide Half-hourly Settlement**

We welcome the opportunity to comment on the potential consumer impacts relating to Market-wide Half-hourly Settlement as this significant change carries considerable opportunity and risk.

Drax Group plc (Drax) owns and operates a portfolio of flexible, low carbon and renewable electricity generation assets – providing enough power for the equivalent of more than 8.3 million homes across the UK. Drax also owns two retail businesses, Haven Power and Opus Energy, which together supply renewable electricity and gas to over 350,000 business premises. This is a joint response on behalf of Haven Power and Opus Energy.

Our response has been provided based on experience of being a non-domestic only supplier and as such we have not answered questions pertaining to domestic consumer impacts. It is also important to note that there are many areas within this call for evidence where it is difficult to say with certainty, how consumers will react to the flexibility options enabled through Market-wide Half-hourly Settlement.

The key points we make in our response are as follows:

- Smaller non-domestic consumers are generally time poor and are likely to be more appreciatively engaged where minimal effort is required to understand their energy usage.
- Smart meters, half hourly settlement and time of use tariffs will be vital components in enabling price signals that customers can react to.
- Non-domestic consumers vary considerably across sectors and company sizes, and so there will be a wide range of ability and desire to actively engage with their energy usage, particularly when it comes to load shifting, though automated load management may go some way to increasing take-up, if the right incentives can be provided.

Our responses to the specific consultation questions are appended. We'd be happy to discuss any part with you further if it would be helpful.

Yours sincerely

**Matt Young**

Head of Retail Regulation, Policy & Compliance  
Drax Group plc

## Appendix - Consultation Response

### Engagement with energy use – SME consumers’ engagement with their energy usage based on their understanding of the variability of electricity costs over time

**Question 3.1: Individual small non-domestic consumers will differ in their ability and/or willingness to engage with how they use electricity.**

**a. What are your views on the forms of communication most likely to facilitate/encourage these consumers to engage with their energy usage to help them make an informed choice?**

We believe digital media provides the most effective form of communication for small non-domestic consumers, utilising mediums such as online, email or smart phone apps.

Informing consumers about how much they could save through energy efficiency measures may be the most engaging approach. Due to the differing characteristics and requirements of individual business energy users, it would be most effective if such information and/or modelling was tailored in response to their specific energy usage needs and behaviours.

**b. What specific information about their energy use could encourage these consumers to engage? Please consider how this information is presented and how regularly it is communicated.**

Comparing a customer’s usage to other similar size businesses in their sector could be beneficial; essentially delivering meaningful insight to help customers understand their usage in useful terms and providing them with the catalyst to change their behaviour or take specific measures.

However, we have seen through our own research, ‘*Understanding attitudes to smart meters amongst businesses – 9 January 2018*’, that businesses often see energy as a ‘necessary evil’ and few perceive energy as a business cost they have direct control over. Our research also showed that businesses would rather reduce touchpoints with their supplier, than increase them. The provision of a dashboard or app which could provide near live information, for example, may help tackle this perception without being burdensome, though we would still look to offer more personal solutions to customers where they wanted to be more engaged. The key is that suppliers are free to innovate in this space to develop solutions most appropriate to their customers, rather than be mandated to offer prescriptive solutions which may be outdated quickly, inhibit innovation and limit take up.

**Question 3.2: Aside from communication, what other measures or initiatives would encourage small non-domestic consumers to become more confident about engaging with energy use? This engagement may be direct or through an intermediary/third party.**

In general, small business owners are unlikely to have the time or inclination to engage with their energy use on a regular basis, particularly where it requires them to log-on to a user account online. However, most non-domestic consumers actively use their smartphones, and so they may be more likely to engage with their energy use through a mobile app, especially where push notifications are prudently used.

Additionally, gamification of energy usage similar to that being considered in the Domestic market may also prove engaging, such as benchmarking a consumer’s energy use against consumers with similar characteristics (e.g. business/premises type).

**Question 3.3: Who would be best placed to help small non-domestic consumers to be more engaged with their energy usage? How would this vary with sector and company size?**

We believe energy suppliers are best placed to engage their customers and educate them on the benefits of smart metering and the impact behavioural change can have on their energy usage and associated costs. It is probable that businesses with higher consumption and thus higher energy bills will have greater willingness to engage and greater potential for cost savings, although they may also have to incur higher investment costs or bigger behavioural changes to realise those savings. As a result, the conversation is quite different to that with a much smaller business, which is likely to have very different usage characteristics and capital allocation considerations. But in either scenario, suppliers are well placed to provide the relevant knowledge, insight and expertise to support such businesses.

**Willingness to load shift – Consumers’ ability and/or willingness to load shift/offer flexibility**

**Question 3.4: Based on evidence you’ve collected,**

**a. what proportion of small non-domestic consumers would be price responsive?**

We have not asked this question to this customer cohort, but we believe only a small proportion of customers would be responsive to within day price signals. Most customers value the price certainty that a fully fixed price provides.

**b. what enablers would be important and what barriers might exist?**

Customers would require smart meters, half hourly settlement and time-of-use tariffs to enable them to respond to price signals. Technology solutions that allow demand loads to be switched off remotely and are inexpensive to the consumer, would also be required. We believe that the majority of smaller non-domestic customers would not have the inclination and the time to respond to price signals, but may be interested in a product where a supplier makes the whole process very easy for them, in return for lower costs.

**c. what volume of load shifting from peak to off-peak periods (%) will a small non-domestic consumer be able to offer? How would this vary with sector and company size?**

With the small non-domestic market varying considerably across all sectors and company sizes, it would be extremely difficult to estimate volume shifting percentages.

**Question 3.5: A number of different approaches to load shifting exist.**

**a. Which approaches to load shifting (direct or indirect, with or without automation) would small non-domestic consumers be more likely to prefer and respond to?**

The value realised from load shifting amongst smaller businesses may be marginal, given overall consumption levels and for many, fixed operating hours. The lower the manageable load, the more likely these consumers would require an approach that requires minimal intervention on their part.

Providing an intelligent, inexpensive and automated service that returns cost savings for time poor and low margin non-domestic consumers may be the most appealing option to them.

**b. What are the risks and benefits of these approaches?**

The benefits would comprise lower costs and low effort on the customer's behalf. Greater automation would allow time poor, price sensitive consumers to spend more time running their business without having the added task of extra time spent managing their energy usage.

The main risk to this approach is that consumers would need comfort and certainty that their load would not be reduced such that it impacted their operational activities.

**c. How could those risks be mitigated?**

An intelligent load management service (including associated hardware/software) would be required in order for the service to 'learn' consumption patterns and demand requirements, but that also could be overridden.

**d. Would certain types/groups of small non-domestic consumers favour certain approaches?**

Detailed research would be required due to the high variance between business types/sizes. In practise, it may be very difficult to define like-minded types/groups of non-domestic consumer simply based on business type or sector, as there are many more factors at play, e.g. location, premises type.

**e. Would certain types/groups of small non-domestic consumers be at greater risk of detriment from certain approaches?**

Those reliant on a guaranteed availability throughout the day could be at risk from direct automated approaches. Again, research would be required to assess needs across different business types and sizes. But importantly, it should be up to the customer to choose (albeit at a cost) whether or not they're willing to shift their load and under what circumstances, rather than having something imposed on them by Suppliers or regulation.

**Question 3.6: Which parties (eg suppliers, other third parties, network companies, community schemes etc) do you consider could be best placed and/or trusted to facilitate these above approaches for small non-domestic consumers?**

Due to the direct contractual relationship and knowledge of the market, we believe suppliers would be best placed to inform consumers about the benefits of, and offer propositions around, load shifting. However, there are many parties who will also be important in offering services, particularly technology developers/providers.

**Question 3.7: What barriers exist that may prevent small non-domestic consumers from load shifting? Can you identify:**

**a. Which particular groups of small non-domestic consumers may face greater barriers than others?**

Detailed research would be required due to the high variance between business types/sizes. Some groups may find it harder to load shift where they have fixed or customer-driven operating hours, e.g. public service or food and beverage.

**b. Are there certain types or levels of consumption that there will be less scope to flex for particular small non-domestic consumers (such as the very smallest)? Are there any which these consumers would consider as “essential” and be unable to shift, such that suppliers, network companies or third parties should not be able to offer to reduce consumers usage below this limit?**

Due to the variance of business types and sizes, including the high variance in consumption patterns and demand needs with even the smallest non-domestic consumers, it would again be difficult to estimate or group consumers specifically, without adequate research. Before conducting that research, it would be important to define ‘essential’, e.g. is it ‘essential’ to maintaining the existing business operations, or is it ‘essential’ for the preservation of life, well-being or security.

Notwithstanding that, and as mentioned previously, it should ultimately be up to the consumer to choose whether or not they’re willing to enter an arrangement that could require their load to shift.

**c. Are any other protections beyond the current regulatory framework needed to ensure arrangements are appropriate and meet small non-domestic consumers needs? Please identify any measures you consider would be beneficial and how these may vary with sector and company size.**

As long as suppliers (and any other parties) abide by good selling practices and provide consumers with sufficient and clear information to make informed choices, any additional protections should be unnecessary. All businesses must take responsibility when entering into contractual agreements that they do so having duly considered the terms and conditions of the agreement and having weighed up the risks and benefits of the arrangement overall.

### **Adoption of innovative technology – Consumers’ access to and ability and/or willingness to adopt innovative technology to unlock flexibility**

**Question 3.8: Which technologies could be useful for small non-domestic consumers to help them offer flexibility and gain better control of their own energy usage, if they choose to do so? How does this vary with sector and company size?**

Where customers have some form of load that can be interrupted without any change in the customer experience, they may be willing to offer it up. That means that customers with load such as refrigeration or HVAC are likely to be more flexible than those with solely lighting and office equipment costs.

The technology offered should be both affordable and non-invasive to the customer experience, in order to be most attractive.

Other technologies and solutions that could prove useful for small non-domestic consumers could include:

- Data visualisation using half-hourly readings combined with benchmarking information
- Smart meter consumer access devices (CADs) that enable 10 second interval data to be retrieved from meters via communication solutions such as Zigbee, along with tariff information, to provide a more detailed and insightful experience – this could open the door to anomaly detection and alerts, e.g. when a customer’s equipment degrades and starts to become less energy efficient or fails

- Technology allowing remote access to devices allowing loads to be switched on and off

**Question 3.9: Who would small non-domestic consumers trust to provide an automation or load management service (eg direct control over their demand) to them, eg if using innovative solution like battery storage? What specific protections may these consumers need? Would they be more likely to offer flexibility if it were automated?**

Small non-domestic customers are unlikely to have an energy manager and are therefore more likely to value an automated/managed service. Energy management services may potentially be provided through a Third Party, although with TPis currently being unregulated, there is a risk that this trust could be misplaced with less reputable organisations.

In addition to our answer to Question 3.7C, appropriate protections may need to be considered for those consumers contracting with parties other than Suppliers, particularly where contracts are agreed on the basis of estimated pay-back periods or energy savings.

**Question 3.10: What are the circumstances in which a communal solution could bring more benefit to small non-domestic consumers (sharing risks/benefits of offering flexibility) and are there any specific protections needed?**

Investing in local generation or storage solutions such as Solar PV, wind and battery storage, could provide benefits to certain communities (e.g. shared office blocks or small business parks) with the risks and benefits being shared. There is the potential for suppliers to develop and provide products or services to facilitate these solutions.

**Question 3.11: Which different sectors where small non-domestic consumers are active could benefit from innovative technologies that unlock flexibility and how could other sectors also benefit?**

We feel this question requires further research to fully explore the benefits available across an extremely diverse consumer base.

#### **Choice of tariff – SME consumer attitudes to, and value placed on, ToU tariffs and other options**

**Question 3.12: Do you have any views about whether small non-domestic consumers may prefer particular tariff types over others (for reference, some examples of ToU tariffs are listed in Appendix 2, and potential access options are described above and in Appendix 4)?**

**Please consider how this may differ by different types of small non-domestic consumers, eg by sector/company size.**

We believe that most small business customers value the price certainty that a fully fixed price provides. Similarly, they have also traditionally indicated preferences for tariff simplicity. However, in future, this should not preclude small business customers from participating in load shifting or time-of-use/dynamic tariffs, as suppliers and other third parties will be commercially incentivised to develop attractive services that will manage the complexity for them.

**Question 3.13: Which types of flexible tariffs and offers are likely to be available to small non-domestic consumers following settlement reform, considering the potential network charging and access options described? Please identify the types of tariff options which**

**a. Suppliers are already offering or are developing**

Some suppliers are already offering Smart ToU tariffs providing lower prices during periods of low demand. These tariffs however are not widely available at present although with the rollout of SMETS 2 meters, the ability to switch suppliers and maintain SMART functionality may see an increase in these tariff offerings.

**b. You expect may emerge following settlement reform**

It would be expected that there will be an increase in tariffs and offers around flexibility services and/or load shifting.

**c. You expect suppliers may develop in response to more granular, locationally differing network charging signals and availability of different access options for their consumers.**

**Would you expect to see such tariffs, automation deals or offers targeted to small non-domestic consumers by location, if underlying network charges varied locationally?**

We already provide prices to customers based upon their location, taking into account the different third-party costs (e.g. network charges) that we incur in supplying a customer's particular premises. The more challenging question, and one we feel it is currently too early to provide a detailed response to, is what tariffs may develop if underlying network charges varied locationally and temporally (whether fixed or dynamic and over what time period, e.g. day or season).

**Question 3.14: Considering any tariff options or packages you have developed, provide evidence of consumer attitudes or response to them**

None developed at this stage.

**Question 3.15: How could protections ensure tariffs/choices are appropriate, including in relation to potential new access options?**

We feel it is currently too early to provide a detailed response to this question. Please also see our response to Q 3.7 C.