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10th September 2020

Re: Electricity Settlement Reform - Market wide Half-Hourly Settlement

Dear Colleagues,

Further to the Consultation on Market Wide Half-Hourly Settlement (MHHS), this is second part of our response, which considers many of the wider implications rather than just financial ones, that Micro-Business and Multi-Site Non Micro-Business customers will experience if (MHHS) is implemented, without significant change and reform to the supply industry first.

OFGEM generally follow a regimented process when publishing requests for information or responses to consultations. A very black and white approach. The industry is far from black and white, its exceptionally complicated, often unnecessarily so, therefore we have opted not to respond to many of the direct questions presented, instead offering fact based opinion on a few directly, in addition to elaborating on many other points that will impact business customers.

As a serial award-winning consultancy our approach is always logical and practical. Our clients consider us to be the solution before the problem and each day we prevent such from occurring. We believe that offering a view from the 'coal face' will help OFGEM consider points that the suppliers and usual responders may have missed.

Part one of our response focused on the financial detriment. This second part has elements of the same, however it focuses more on many points raised by OFGEM in the draft impact assessment document and consumer impact assessment document, taking into consideration real world scenarios and consumer impact.

Presently OFGEM appear to have a view of the industry that suppliers would like you to have, and in our opinion, it is resulting in OFGEM over-estimating both supplier willingness and capabilities to implement change.

A few questions first, that whilst off topic, demonstrate that the lack of appropriate consideration when implementing industry wide changes, such as some of those that have taken place in the past 10 years, remains significantly detrimental to thousands of customers, especially when suppliers are left to self-regulate, without being closely monitored.

Is OFGEM aware that a big 6 supplier cannot comply with the requirement to complete the 21-day registration process as required under SLC14a?



Is OFGEM aware that the same supplier is not capable of registering customer supplies with a commencement date that falls on a Saturday, Sunday, or Bank Holiday, which leaves customer out of contract with an existing supplier for a short period?

Is OFGEM aware that the same supplier is one of a number that uses a registration system, that is not capable of using the COT indicator when registering supplies?

Is OFGEM aware that suppliers are mostly incapable of lifting objections within the 1 day objection windows because their systems aren't configured to enable it and that the reduced window from 5 days, has had the opposite effect of what it was introduced for?

Is OFGEM aware that some AMR meters only retain data for around 60 days and that there isn't a standard timeframe for data retention set within the meter technology?

Is OFGEM aware that if Half Hourly meters stop communicating data, with the result being that the data collector needs to carry out a manual reads visit, that where collection is not successful, the data collector estimates the half hourly data, with no consideration of what the customer has actually used, even if a customer provides the meter advance reading to their supplier?

**The data collectors are not capable of using the advance in readings to re-estimate the half hourly data, instead previous half hourly data is used.*

The latter point is relevant to MHHS and one of the real-world scenarios that we have seen impact dozens of customers prior to and during the COVID period. It should be impossible to fail to correctly charge a customer for consumption that the customer and supplier know has been used, yet it isn't and data retention within the meters is one of the present issues some of our clients have been faced with.

Projected MHHS Implementation costs – evidencing the financial benefits

We have reviewed supplier transitional costs and believe that they are significantly underestimated, particularly IT system costs given that there are almost 100 active suppliers and 31 million supply points.

Implementation costs to date for P272 do not appear to be publicly available and we believe that OFGEM should seek and publish that data, for review and further comment by interested parties.

We believe that review of the costs v benefits following implementation of significant industry changes, should be expected by all consumers, especially if similar changes are going to impact additional customer classes in future. For something as significant as this, we believe that OFGEM should be doing more to appropriately identify cost v benefit in advance of MHHS implementation.

Part one of our response demonstrated (with supporting evidence) that customers impacted by the implementation of P272 have and still are suffering financial detriment. This has applied universally across our client base. The same mistakes can and must be avoided. One way of doing so would be for OFGEM (or a programme manager) to work closely with several willing suppliers that have a large enough number of customers willing to become Elective HHS.



Regardless of P272, few suppliers have created innovative time of use tariffs, which makes this a challenging exercise. The opportunity to carry out real world market testing lies with the more technology focused suppliers, likely some of the market entrants from the past 10 years.

We noted that OFGEM have cited the Agile report from Octopus Energy, a supplier that has invested significantly in technology, so much so that they are yet to make a profit. Citing the report and focusing on the financial benefits, is somewhat short-sighted. It is telling that the trial size data has been omitted from the report. Therefore, we had to go looking for it.

OFGEM are proposing changes that will impact how 30 million supply points will be charged and are being influenced, in part at least, by a supplier report (which is self-promoting) that has a sample size of just 149 customers, with the savings graph showing just 47 customers as reference points.

The Agile report on demand shifting is the only one relative to the UK market that has been referenced and to go full steam ahead based on such an extremely small data set, would be wholly inappropriate. In addition, the results do not stand up to scrutiny. The statistical anomalies have not been considered.

These underlined statements are extracted directly from the Agile report on demand shifting.

28% showed a statistically significant change in peak time usage, dropping peak usage from 16% to 11.5% of their daily consumption. This behaviour change reduced peak demand by an average of 15.62kWh per month.

15.62kwh over 65 hours per month (4pm-7pm Mon-Friday)
=187.44kwh per year over 780 hours
=0.72 kwh per day less
=0.24 kwh per hour less
@14p kwh = 10.08p saving per day / £36.79 per year

Each hour is 4.116% of the daily period. Therefore a 3-hour peak period is 12.5% of the day's total. Users were averaging 3.5% higher consumption over the peak period, than the average consumption for the equivalent 3-hour off-peak periods (16% v 12.5%). Following load shifting, the average consumption for the adjusted 3-hour peak periods is 1% less (12.5% v 11.5%).

If 28% of Agile customers show a significant statistical change in peak time usage, and that statistical change shows that the 28% in question only reduced their peak usage by 4.5%, how can overall peak usage be reduced by 28.19%?

**Agile report - Overall, peak use was reduced by 28.19%, suggesting that wider uptake of smart time of use tariffs could significantly shift overall demand at peak times, which would bring huge system benefits.*

This anomaly appears to have been overlooked. Alternatively, Octopus Energy have considered more than just the 4pm-7pm Mon-Fri period as being part of the peak time, although their report only refers to these hours.

Octopus Energy reports that they need to expand on the sample size to include much larger numbers of participants and from a broad spread of demographics. OFGEM have a duty to ensure a much larger sample size from several suppliers is reported and reviewed. Given the costs involved, imposing industrywide changes without doing so, would be outrageous.



We do not believe that customers of Octopus Energy are truly representative of the average GB energy market customer either. They are probably the more diligent switchers and early adopters of technology. The types of customer that are increasingly likely to engage with the marketplace on an annual basis.

But what about those that choose not to engage in the same manner or those that do so less frequently?

A market that works for all, should not just mean for customers that do not demonstrate apathy, or those that are not able to implement change because of financial or operational reasons.

The presentation of an ideal, to the 3.2 million households in fuel poverty is a futile exercise. These would be the last households to invest in technology that helps facilitate a shift in load.

There are almost as many SME business customers as there are households that are in fuel poverty. Regular engagement with this class of customer and an understanding of many different business operations enables us to conclude as OFGEM have in the last page of the Draft Impact Assessment:

'we assume very little load shifting from these consumers under the elective arrangements'.

It is a fair assumption. It is the same assumption for domestic customers, which is why OFGEM have ruled out the 'do nothing' option, appearing to judge that an elective arrangement would amount to doing nothing, because it's perceived that suppliers have no intention of creating innovative Time of Use tariffs. However, that does not mean change should take place for the sake of it, especially change where benefits to end users are not clearly identifiable.

Load shifting appears to be the primary driver, yet the business case to move to MHHS is unproven, with only anecdotal evidence from the residential market being presented. It is evident from walking along high streets, retail parks and industrial estates, that the opportunity to make impactful investment in renewable energy is limited for most SMEs.

Many businesses occupy the ground floor of a multi-level property that may be mixed use, therefore they do not have rights to the roof space to invest in solar technology. The same businesses often have limited available space, so could not invest in battery storage to help facilitate load shifting either. A typical destination high street is likely to have shops connected to three phase services, many businesses requiring such given their higher demand. The greater the demand, the more batteries and space for them needed. Commercial properties have not been designed and built with battery storage in mind.

The energy demand of most high street and retail businesses is driven by customers footfall. What modelling or trials have been conducted to establish the financial impact of MHHS on a typical SME business customer?

P272 history, industry doubt's, and contradictions, including OFGEMs own

Establishing what load shifting patterns may look like in future is difficult, although it may be made a little easier if real world data is available. Real world does not mean a small cross section of customers in the domestic market. It requires a truly representative study of each of the customer classes that will be impacted.

There are comments in the Monetised Direct Costs section of the Draft Impact Assessment that are presented as expectations. There is no consideration of what the known financial impact to customers have been because



of the previous similar significant industry change, P272. Maybe OFGEM do not know, at least not until we provided evidence of it in part 1 of this response.

3.16 of the Monetised Direct Costs states:

'suppliers should make cost savings as a result of having more detailed consumption data and improvements in energy consumption forecasting (which would, for example, reduce the exposure to imbalance costs)'

At this point, interested parties should be confident that the statement is supported by evidence detailing the same, with information gathered following the implementation of P272. However, OFGEM are either not able to or have opted not to provide any, because as advised in the first part of our response, we have not seen a single customer benefit from reduced costs because of P272. The impact only being an increase in costs, a less competitive marketplace and an increase in the amount of time customers need to engage with suppliers and meter operators, at the point of contract agreement.

Prior to P272 implementation, the work group had concerns that the costs would outweigh the benefits. This was being argued as far back as 2012. To prevent the former 05-08 profile customers from receiving disproportionate charges to those they impose on the network, (DCP) 179 was implemented and it introduced new HH Duos tariffs for the consumers in Profile Classes 5-8.

In the DCP 179 Modification Proposal it was stated that:

This proposal will reduce both the discrepancy between tariff types and the disincentive for customers with HH meters moving to HH settlement. We note that the main difference between the NHH and HH tariffs will be the impact of the move from one or two unit rates to three unit rates. By moving to three unit rates, customers should have greater control over their charges, as they may be able to move consumption to time bands with lower charges.

OFGEM placed too much faith in the suppliers. Only one supplier that Business Energy Direct work with, has offered a suitable contract type that reflects the three different time bands for DUoS (red, amber, green), for these post P272 HH customers. We are only aware of a few suppliers that have charged the tariff as a pass through, to out of contract or deemed customers. Therefore, customers have no visibility of the different time periods as most supplier invoices fail to detail them.

Repeatedly OFGEMs expectations are not being met, evident across many areas of the industry. It should be expected that expectations are not being met, when as an organisation, OFGEM are too far removed from what is happening in the industry.

Returning to P272 once more, a further point was raised by the workgroup who argued that P272 would not better facilitate competition. This was one of the primary objectives, as noted below.

BSC Objective (c) – promoting effective competition in the supply of electricity and (so far as is consistent therewith) promoting such competition in the sale and purchase of electricity

We can state with some certainty, that in respect of P272 this objective not only failed, but it had the reverse effect, whilst also resulting in customers paying more and almost no load shifting taking place. If there was evidence of the load shifting, then OFGEM would have published it.

Additional comments evidence that OFGEM's predictions are too often way off the mark. The below relating to metering and supplier agent charges.



'we expect that P272 Alternative will reduce the costs of services provided by supplier agents for existing HH consumers. This is because it will double the size of the HH market, which enables the fixed costs of supplier agents to be spread over a larger number of consumers.'

Business Energy Direct work directly with several meter operators that provide services to suppliers and customers. P272 did not result in any noticeable change to these supplier agent charges, regardless of the additional number of now HH supplies.

We are now six years on from the decision to introduce P272 and evidence shows that the concerns of the workgroup were well founded.

OFGEM's doubts of the potential for MHHS to be successful for all consumers, are contained within the Consumer Impact Statement. A selection of these are below.

'Previous evidence from research and trials suggests there is some domestic consumer interest in saving money on energy bills by using electricity flexibly when presented with options to engage and do so. There is less firm evidence available about small non-domestic consumers' attitudes towards flexible usage.'

'There is uncertainty about whether a willingness to take usage data from a smart meter on board would convert into consumer behaviour change that results in load shifting'

'The potential level of achievable load shifting is unclear'

'Some may take up technology, if they can access/afford it'

'The research showed that a wide range of positive and negative impacts on energy bills within all of the groups was possible.'

'In the CfE, one non-domestic supplier noted that small businesses would rather reduce, than increase, the frequency of communications with their supplier.'

'The Federation of Small Businesses (FSB) undertook a members' survey in 2019 showing that 24% of microbusiness respondents agreed that a ToU tariff could benefit their business'

We will pick up on two of the above points.

Firstly, that small businesses would prefer to reduce supplier communications. The feedback from our client base goes a step further. They detest engaging with suppliers, for the most part finding them unresponsive, difficult to engage with and often unnecessarily obstructive. For most small business users, using energy is like using oxygen. They just want to know it exists for their benefit. In future, few will care about price alerts where they can save a few pence or even a few pounds, as it will take them away from their core focus of running a business.

Secondly, if 24% of micro-business respondents stated to the FSB that a ToU could benefit their business, that means that more than three quarters, either did not know if they could benefit or stated that they wouldn't benefit. That is a large majority that need to be convinced that implementing MHHS is appropriate for consumers.



Costs aside, many of the specific problems that will arise because of MHHS implementation can be predicted. Why let the problems arise in the first place when they are avoidable? Being reactive to problems should be the exception, not the rule. The house needs to be in order prior to implementation and OFGEM need to adhere to the principal objective. Protect the interests of existing and future customers.

OFGEM will only be able to do that with closer monitoring of supplier progress and real-world testing of supplier's ability to produce bespoke Half Hourly quotes in real time. Waiting 5 days and for a restricted number of suppliers to quote as is standard in the current market, is not going to achieve the principal objective. Post P272 transitioned customers will tell you so.

Transition period and impact of COVID-19

In most industries 4 years to implement significant changes would be considered manageable. The implementation is unlikely to be the problem, the time allowed is sufficient for suppliers and other industry parties to complete the required actions. The problem is ensuring that once implemented, that MHHS is working as intended. The energy industry is one that lacks foresight and with OFGEM being too far removed from supplier activity, (OFGEM do not have a hands-on approach with suppliers) if some of the necessary changes, such as the creation of industry-wide ToU tariffs and faster quoting, are not mandated, then MHHS will be the failure that P272 has been.

The impact of COVID-19 has resulted in delays to the installations of smart meters (or AMRs) to customers. The 2024 expected completion date is a pipedream in our opinion and wholly unachievable, even without the impact of COVID-19. That is not been the view presented by Government, even having already extended the original 2020 deadline. We manage our own rollout program and have commented on some of the challenges in part one of the response.

The more pressure the suppliers are under to hit the deadline, the more they place meter operators under. We are informed by the meter operators that we work with in the commercial sector, that this has resulted in a sector employment market of 'highest bidder wins' and engineers are jumping ship from one meter operator to another depending on which is prepared to pay the highest salary. It results in a shortage of engineers in certain areas with the various meter operators having sufficient coverage one month and the following month having to find someone prepared to do a 400-mile round trip to complete an exchange or installation. This cannot be helping the installation success rate.

One of the most important questions that we have not yet asked is, how can OFGEM mandate MHHS, which is reliant on smart or AMR meters, when you aren't making the installation of a smart /AMR meter compulsory?

It appears to be another process designed to fail, especially when only 70% of the market is expected to have the required meters by 2024. That will leave millions and millions of domestic and commercial customers exposed, suppliers potentially taking advantage of them as we have evidenced for customers already migrated through P272.

Final thoughts

If MHHS is to work, the industry requires appropriate direction with close monitoring of supplier progress prior to implementation. OFGEM should working with several third-party consultants that will be prepared to feedback on suppliers and their capabilities when requesting that suppliers participate in the quoting process for both commercial and domestic customers.



Analysis of quoted charges needs to take place, to ensure that customers are not exposed to higher overall costs (which may be caused by inappropriate pricing methodologies) because of the mandated change from NHH to HH settled supplies.

A decision to make Smart / AMR meters compulsory for all, would align the two objectives. Not making them compulsory is counterproductive.

Review of the impact of P272 and post implementation cost analysis should take place. Further analysis of data from thousands of (GB only) customers that already have ToU tariffs and are / are not participating in load shifting must be carried out, with the true benefits being clearly identified.

Cost controls need to be put in place with meter operators for Half Hourly services. They have not been reduced because of P272, regardless of the doubling of the number of Half Hourly settled meters.

We are taught to learn from our mistakes at an early age. Hopefully, the consultation responses from interested parties elaborate enough to help OFGEM make the appropriate decisions. We would prefer not to be one of several concerned TPIs in a future forum, complaining to OFGEM that MHHS has been a failure in the same way as P272 was, and that customers are paying more as a result.

At the event in August 19 TPIs did exactly that throughout the afternoon.

Yours faithfully

Simon Askew
Managing Director