



Making a positive difference
for energy consumers

Electricity supply licence holders,
electricity distribution licence
holders, code panels, code
administrators, industry bodies,
metering agents, consumers and
their representatives, and other
interested parties

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Dear Colleague,

Report on the Distributional Impacts of Time of Use Tariffs

This letter accompanies our publication today of the report which Ofgem commissioned from Cambridge Economic Policy Associates (CEPA) on the distributional impacts of time of use tariffs.

Half hourly settlement (HHS) will expose suppliers to the true cost of their customers' usage and therefore incentivise them to take steps to help their customers to move their consumption to times of the day when electricity is cheaper, including by offering time of use or other types of smart tariffs. This will build on the platform provided by smart metering, to enable a smarter, more flexible energy system that lowers bills, reduces carbon emissions and enhances security of supply. Given that HHS is expected to increase the number of smart tariffs and products available to consumers, we commissioned this report in order to better understand how such tariffs may impact on consumer bills and what currently available evidence can tell us about consumers' willingness or ability to respond to such tariffs.

Ofgem commissioned CEPA to deliver a report:

1. analysing the distributional impact of time of use tariffs on different sociodemographic groups; and
2. assessing the potential for behavioural change among consumers with different characteristics.

Overview

CEPA's report draws on a number of the best available sources of evidence including two large time of use trials, consumer panel data collected by BEIS and other academic literature. The trials had limitations, including exclusion of certain categories of vulnerable consumers and those on dual fuel or fixed rate tariffs, tariff designs which may not be representative of real world products and money back guarantees if a trial participant's bill would have risen while on a trial.

It is encouraging to note that for all groups except the two most affluent, the report finds that the average consumer would make some saving on their bill after expected behaviour change is taken into account. CEPA's report finds that although there are differences in the

expected bill impacts *between* particular sociodemographic groups, the spread *within* each group is far larger.

Given the broad spread of bill impacts within each group, the research predicts that some consumers would not save money by shifting to a time of use tariff. It is important that consumers are provided with clear, accurate information to enable them to make informed choices about their energy supply. Ofgem's recent introduction of principles on tariff comparability and sales and marketing in the supply licence are designed to ensure that this is the case.

CEPA's report raises the possibility that some suppliers could seek to move customers whose fixed term contracts have ended to a time of use tariff by default instead of a standard variable tariff as would normally be the case today. We have considered whether this would be possible and our view is that it would be unlikely under the current regulatory arrangements.

Next steps

As explained above, existing trials have characteristics which limit their reliability for developing definitive conclusions. Given that time of use and other types of smart tariff are not currently widely available to domestic and smaller non-domestic consumers in Great Britain, we recognise that research on this topic is in its infancy. Therefore, this study should be seen as a first step towards understanding the distributional impacts of time of use tariffs. It also gives us a better understanding of the limitations of the current evidence base and therefore areas where it may be beneficial to focus future evidence gathering activity.

Ofgem will continue to consider the potential impacts on consumers of mandatory HHS and whether any additional protections will be needed as a result. We will also monitor the market closely, including supplier uptake of elective HHS and any impacts on consumers which emerge as a result.

If you have any questions or comments on this letter or the distributional analysis, please contact Jenny.Banks@ofgem.gov.uk or Anna.Stacey@ofgem.gov.uk or email the team mailbox HalfHourlySettlement@ofgem.gov.uk.

Yours faithfully,



Cathryn Scott

Partner, Energy Systems