techUK response to Ofgem

Call for Evidence: Potential impacts on consumers following market-wide settlement reform

10 St Bride Street
London
EC4A 4AD

T 020 7331 2000
F 020 7331 2040
www.techuk.org

techUK | Representing the future

Contact: Teodora Kaneva | Programme Manager Smart Energy & Utilities and IoT
T: 0207 331 2016
E: teodora.kaneva@techuk.org

About techUK

techUK represents the companies and technologies that are defining today the world that we will live in tomorrow. The tech industry is creating jobs and growth across the UK. Over 900 companies are members of techUK. Collectively they employ more than 700,000 people, about half of all tech sector jobs in the UK. These companies range from leading FTSE 100 companies to new innovative start-ups. The majority of our members are small and medium sized businesses.

Summary

techUK welcomes the opportunity to respond to Ofgem's consultation on Potential impacts on consumers following market-wide settlement reform.

Our observation is that the questions listed below may be very general for some cases, but we do believe that industry will be best placed to give proper evidence of these. We believe that more modelling is required to reach best conclusions in order to protect the consumer and provide a genuinely smart and beneficial energy system.

We are of the opinion that the groups of consumers we have identified below, together with the wider pool of consumers need better communication pathway and a lot more understanding of the services provided to them.

We would like to summarise some important points on the section of non-domestic consumers, as our comments are more general, and our members will be responding with evidence in detail:

If it is likely that non domestic consumers will have more control on the load and therefore are sensible early target for offers. By their nature they have challenges of knowledge, availability of time to assess what are the right offers for them and may even be more risk averse. Such groups may need more hand holding and encouragement to set them up in the early stages. Non-domestic consumer are a big community and some businesses are less likely to shift load – such as restaurants, pubs, emergency services, medical centres, hospitals etc. Some may be able, but a lot will not. Here we also have tenant-landlord issues which come into play. There is a motivation to engage is more problematic where investments are required. Therefore, we do want to point out that there is a need for a national DSR market simplifying the engagement of companies in this area. Communication methods need a lot more segmenting in our opinion. We believe that perhaps some of the learning should be shared especially after the settlement reform and would like to point out that there has been very little update on already implemented reforms. Furthermore, we would like to question what the response from customers and uptake has been to the elective half hourly market?

Response

Question 2.1: Individual 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 consumers to engage with their energy use to help them make informed choices?

In the future it is very likely that the consumer will be engaged with multiple energy suppliers and energy services e.g. heat, electricity, Electric Vehicle bundle offers.
In a multi-offering provider world, the market will need consistency and perhaps there could be value from an entity which centralises provision of assistance and provides a variety of services including intermediate consumer advice, linguistic services, disability services, and others. In a rapidly changing energy system, we may see the need of an intermediary to facilitate the transition in the early days and engage the consumer from the beginning with specialist advice.

We strongly believe that certain groups of people will still be unlikely to engage with the smart energy market such as; renters, people with linguistic difficulties, the digitally excluded, people in poverty, etc.

In a new energy system techUK is of the opinion that there is a lot more modelling to be done around the centralisation of information and how best get targeted messages across to consumers. For instance, given the multiple channels and multiple solutions, how to enable access to data so that solution offers are properly targeted.

As an example, if we are moving towards a multi-supplier model if the service provided goes wrong the system must run as smooth as possible in creation of this market. There is a need of a centralisation of assistance services to help consumers navigate, resolve problems, but also have the right communication about tariffs and solutions on offer and the appropriate handholding.

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

We strongly believe there is a certain confusion of information provided to consumers given the large amount of necessary information suppliers must provide according to their license agreements. Furthermore, changes in regulation such as half hourly settlements and data sharing is information that needs to be addressed as well on top of all others.

A good first point of contact is when an offer is to be made for a tariff available. Beyond that communication can become distorted and confusing. The consumers have a strong financial attraction to any service or product offered which responds to their economic and desired life style. Similarly, there is a need around smart offers for help and assistance to navigate adoption and usability of services. A service which could accommodate all and is easy to use by consumers is perhaps needed.

To that point we would like to reference our consultation response to "Access to half-hourly electricity consumption data for settlement purposes" where we have communicated our concern of the opt-out mechanism and the communication of it, as well as opt-out for smart metering all together. These are complex mechanisms which are hard for consumers to understand.

An understanding as well as the consequences of such as action in needed; ie how much a consumer would have to pay not to be settled using half hourly data and how their supplier will communicate this information to them? Would this information lead to consumers changing their choice? How would that affect faster switching and costs for the Suppliers as there will be some customers who are not behalf hourly settled. We want to iterate again that we are strongly recommending for these costs not to be socialised, as the cost of energy to the majority should not be raised by those seeking to pursue options that are against the general good.

Question 2.2: Aside from communication, what other measures or initiatives would encourage consumers to become more confident about engaging with their energy use? This engagement may be direct, or through an intermediary/third party.

techUK wants to recognise the role of Smart Energy GB and its capacity to promote and provide information for a particular segment of the market. We believe there is a need for a similar service for smart offers, but with a different business model. Smart Energy GB, whilst effective and has some significant achievements has been costly to implement on what is a relatively narrow part of the smart energy system.

Question 2.3: Based on any relevant evidence you have collected, a) what proportion of consumers would be price responsive? b) what enablers would be important and what barriers might exist? c) what volume of load shifting from peak to off-peak periods (%) will a consumer be able to offer?

We believe that more modelling is required by Ofgem but we have identified some use cases, please see our response of question 2.6.

Our members will be best placed to provide more evidence to this particular question in their own submissions.

We do want to highlight however that techUK's Connected Home Working Group carried out a consumer survey in 2018 in collaboration with GfK, where we have identified that smart meter ownership is also linked to additional smart energy products, acting as a narrower gateway product than smart speakers and assistants but one that is still significant[1]. In our Connected Home Report 2018 we have researched four categories: smart entertainment, smart health, smart energy, and smart domestic appliances. We have drawn conclusions that consumers who own a smart meter are more prone to engage with their energy provider to be able to facilitate their smart home devices. We do think there is a link which needs to be explored further.

We have explored some barriers further below, please see our answer to question 2.6.

Question 2.4: A number of different approaches to load shifting exist.

a) **Which approaches to load shifting (direct, or indirect, with or without automation) would domestic consumers be more likely to prefer and respond to?**
b) **What are the risks and benefits of these approaches?**
c) **How could those risks be mitigated?**
d) **Would certain types/groups of consumers favour certain approaches?**
e) **Would certain types/groups of consumers be at greater risk of detriment from certain approaches? These approaches could include but are not limited to:**

- **ToU tariffs**
- **Tariffs reflecting capacity-based charges, which may involve a defined access limit or different types of access option as described in paragraph 2.6 and Appendix 4**

We believe that consumers are much more likely to respond if its automatic, easy and straightforward, as long as the consequences of the change do not materially damage their lifestyle and convenience. There are risks however where people will sign up to services they don't fully understand and end up paying unexpectedly high premiums. Or be significantly harmed due to a change in their circumstances, for instance having children, or becoming infirm. More research and modelling is required to minimise that risk.

Other cases may include activities for the greater good for the network for the country but small incremental value to the individual consumer. In these cases, the benefits must be socialised, and other ways of engagement opportunities must be encouraged.

[1] https://www.techuk.org/connected-home/our_report

Question 2.5: Which parties (e.g. suppliers, other third parties, network companies, community schemes etc) do you consider could be best placed and/or trusted to facilitate these above approaches?

We believe that community third parties may be best placed e.g. organisations which are trusted by customers to be involved such as Citizen Advice. It might in fact make sense to have multiple parties so as specialised advice can be given.

Question 2.6: Certain consumers may face barriers that prevent them from load shifting.

a) What barriers exist that may prevent consumers from load shifting?

We have identified several cross-cutting barriers:

- Lack of trust - Consumers are naturally risk averse when it comes to new business models. In the energy market, if you are not a familiar brand you have to build trust from scratch, and that can be a challenge. Particularly impacts TOU, P2P and Eaas. Similarly, examples of mis-selling, or consumers suffering harm from being on the wrong deal could severely damage uptake.
- Lack of motivation - Current energy system set up is easy to access for a vast majority of consumers. You pay for what you use and have a low-cost heating system in place (relative to alternatives). Consumers have other priorities or are comfortable with the existing model so it could be challenging to build the engagement required for mass market change. Particularly impacts TOU and EaaS.
- Financial barriers - All new business models require some financial impact for consumers. Either in the form of an up-front payment for technology, or a long term contract or lease which is based on a reliable income. Financial barriers will be most significant for business models that require high up-front investment such as Efficient Consumption focusing on building efficiency and long contract length for Energy as a Service business models focusing on installation of expensive technology.
- Lack of understanding - Linked to motivation, consumers today have a limited understanding of how the energy market works as today's proposition hide the complexity. This means consumers do not understand why there is a need to adapt and change how they engage. Particularly affects P2P.
- Technology exclusion - Almost all new business models have a requirement to engage in some sort of new technology. This could be relatively 'low tech / basic' in the form of insulation, or simple heating controls or more complex requiring engagement with a new innovative heating system or energy storage. it is important not to leave any set of consumers behind so will require careful thought to simplify technology commands, or provide instructions in formats tailored for different consumer types. Particularly impacts Eaas.
- Digital exclusion - Almost all new business models have a digital element to them. For the majority of consumers, digital barriers should be relatively easy to overcome. However, there will be a significant minority for whom this is a blocker. This will

require some additional steps for business model providers – such as simpler versions or options to engage offline. Affects all business models.

b) Which particular groups of domestic consumers may face greater or more significant barriers than others?

- Low income consumers - rationale: high upfront cost of technology.
- Renters - rationale: some may have low autonomy to purchase technologies in the home and/or there may be data issues if there are landlord owned technologies (especially if it's part furnished and people want to connect goods). Also may not have tenancies with sufficient duration to justify selecting the service.
- Digitally excluded consumers - rationale: this accounts for approximately 10% of the population and could limit access to technologies, especially if this requires WiFi.
- Those who can't/won't get a smart meter - rationale: could restrict the offers they are able to engage with and (depending on design) technologies.
- Those with disabilities - if accessibility is not considered from the outset with technologies and built into the design.
- Those concerned with data privacy - if privacy is not built in by design and industry does not build consumer confidence.
- Those who are time poor/disengaged - if products and services require extensive engagement and complex consumer decision points at purchase (i.e it's not easy to understand the value).
- Those who have low digital confidence - rationale: if products or services are not made simple and intuitive people could disengage from the process
- Low energy users: rationale: may not be cost effective to invest in enabling technologies.
- Those without off street parking/an EV: won't be able to engage with some forms of flexibility such as V2X.
- All consumers: barriers around too expensive, visually unappealing/don't have the space (i.e. battery storage), value of being flexible isn't there, there's not a critical mass of products or service that make it worth investing in.

Furthermore, allowing for opt-out in half- hourly settlements risks gaming by suppliers who would (1) want to avoid customers with high peak usage being half-hourly settled or (2) cherry-picking customers with low peak-usage. Similarly, individual customers with high peak usage risk being more likely to opt out (even if there was not an immediate price impact it is clear from Ofgem's consumer research that fear of price increases is a reason for customers having concerns about sharing their data).

c) For particular consumers are there certain types or levels of consumption that there will be less scope to flex (ie are there any forms of consumption that 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)?

Citizen's advice False Economy report published in August 2018[2] identifies those with young families, large families, high income, under 55 less likely to load shift. Those more likely include over 55, households with fewer people, retired. There is clearly more work that should be undertaken to identify those non-domestic consumers who would be most able to change their consumption.

Question 2.7: Do you have any views about the scale of any distributional impacts? How may these be mitigated?

We are concerned that there will be impacts with regards to electric vehicles, infrastructure, and adoption of smart technology but we do not have sufficient evidence at this time.

Question 2.8: How could innovative technologies or solutions enable more consumers to provide flexibility, either individually or collectively (eg through a community approach)?

We believe that there is a lot of evidence out there such as BEIS's Upgrading Our Energy System Smart Systems and Flexibility Plan[3], Octopus's Agile Tariff[4], Verve's community energy blockchain trial[5], other Ofgem's sandbox trials.

Even the implementation of smart meters enables the consumer. Citizen's Advice Early Consumer Experiences of Smart Meters paper shows that 80% of the consumer with a smart meter have already changed behaviour[6]. We also think that time of use tariffs will clearly be key to encouraging consumer utilisation of smart charging and these will largely depend on smart metering functionality.

Question 2.9: We want to understand what specific concerns or risks of detriment may exist with the use of technology and innovation to enable flexibility.

a) **What barriers exist for consumers to access these enabling technologies/innovative products?**
b) **How could these barriers be overcome?**

---

[2] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/False%20Economy%20(LToU%20tariffs%20and%20restricted%20meters%20report).pdf

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/633442/upgrading-our-energy-system-july-2017.pdf

[4] https://octopus.energy/agile/

[5] https://verv.energy/weve-just-executed-the-uks-first-energy-trade-on-the-blockchain-as-we-look-to-power-a-london-social-housing-community-with-sunshine/

[6] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Early%20consumer%20experiences%20of%20smart%20meters%20-%202018%20.pdf

c) **Are there any particular concerns which may apply for certain consumer groups, eg vulnerable consumers (affordability and practicality)? d) What further protection measures should be considered alongside these technologies?**

Please refer to our response to question 2.6.

Question 2.10: Do you have any views about whether 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 in Appendix 4)?

Question 2.11: Which types of flexible tariffs and offers are likely to be available following settlement reform, considering the potential network charging and access options described? Please identify specifically the types of tariff options which

a) **suppliers are already offering or are developing**
b) **you expect may emerge following settlement reform c) you expect suppliers may develop in response to more granular, locationally differing network charging signals and the availability of different access options for their consumers. Would you expect to see such tariffs, automation deals or offers targeted to consumers by location if underlying network charges varied locationally?**

As mentioned above there are examples of such tariffs are already being offered.

techUK's members will respond individually to this question.

Question 2.12: Considering any tariff options or packages you have developed or may develop, please provide any evidence of consumers' attitudes or response to them.

techUK's members will respond individually to this question.

Question 2.13: How far could principles-based obligations help ensure tariffs/choices are appropriate, including in relation to potential new access options?

Obligations should be principle based. Ofgem need to consider how non-licence entities are also included and consumers are protected properly.