

Grid Edge Policy

Regulation · Energy · Consumers

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Email:half-hourlysettlement@ofgem.gov.uk

Ofgem's Call for Evidence on the Consumer Impacts of Half-Hourly Settlement

Dear Anna,

Until 2016 I was Senior Partner Networks at Ofgem having previously led Ofgem's work on vulnerable customers. I am now an independent consultant and thought leader on energy regulation with a particular focus on the consumer interest. I am also an Associate with Sustainability First. This response is submitted in a personal capacity.

General evidence including Qs2.2, 2.9 and 2.11c

In terms of additional sources of evidence, I would draw your attention to the Smart Fintry project which was funded by Scottish government and provides a relatively rare, public source of data on the impacts of a move to half-hourly settlement (discussed in particular in section 6.1.1 of the [final report](#)). It discusses the challenges anticipated by the supplier, Good Energy, as we tried to work out how we might exploit half-hourly settlement in support of this local energy project. This drew out, for example, the difficulties of combining what is in effect a static TOU cost profile from network charges with a more dynamic cost profile from wholesale energy prices. It also highlights the uncertainty about how far fully cost-reflective prices (including significant price spikes) would be acceptable to consumers or the regulator and the distributional impacts of such a move.

In terms of motivating customers to engage the assumption underpinning the project was that customers could be motivated by feeling they were playing their part in the community with engagement taking place at a local level. The report provides some evidence of this applying in the particular Fintry context.

Appendix C to that report also provides a literature review of Consumer Attitudes to Demand Side Response and Direct Load Control which includes considerations like safety concerns about using machines overnight which are not often mentioned. The Appendix covers:

- Evidence on the major sources of load that could be used for DSR / DLC and where consumers are most happy to time shift;
- Evidence on the balance between automation and behaviour change;
- Evidence on consumer concerns about ceding control;
- Evidence on consumer experience of dynamic DSR / DLC programmes.

Q2.7 – Distributional Impacts

The other evidence source that I would encourage you to consider is the report that Grid Edge Policy have produced in response to this Call for Evidence on the Consumer Impacts of a move to Half-Hourly Settlement (copy attached and also available from www.gridedgepolicy.com).

This report considers the evidence available on the distributional impacts of time of use tariffs. It stresses (as did our response to the Targeted Charging Review consultation) the need for Ofgem to

up its game in relation to understanding the distributional impacts of these major changes – and also in this case the need for better data to inform these policy dialogues. In relation to half-hourly settlement Ofgem cannot simply assert that there will be no losers because customers do not have to take up a TOU tariff. This misses the point that if certain customers are more costly to serve (as a result of half-hourly settlement) ultimately suppliers will either look to avoid serving them or will find ways to increase charges to them. As customers with flatter profiles opt to move onto lower cost time of use tariffs this will leave remaining customers having to pick up a larger share of the costs of the system (reflecting the overall higher costs imposed by that group who have peakier profiles).

The report confirms the conclusion from other studies that there are very limited differences between the average profiles for different socio-demographic groups. However this only reinforces the need for further and deeper investigation. What the report also highlights is that within these groups there are very significant differences which can lead to shifts in individuals bills of +/- upto 15% if the costs to serve were to be passed through. For customers on low incomes such increases would be particularly hard to cope with and so cannot simply be ignored.

The fact that the changes will have these distributional impacts is not a reason not to move forward with the reforms but Ofgem should be doing it with its eyes open.

More generally, and in line with comments that I know Sustainability First are making, it is essential that Ofgem looks across the piece at the cumulative impact of all the changes that it is making when it attempts to think about what is fair and affordable for vulnerable and in particular low-income groups, and how any adverse impacts might be mitigated.

Q2.13 – Principles based regulation

While the consultation is looking for evidence on the detail of the sorts of offers that might appeal to consumers, I would caution Ofgem against trying to second guess the market. Consumers will vary in terms of lifestyle, motivation, facility with technology etc and hence one cannot talk about what customers prefer in this area. Of more value in my view would be an attempt to structure the different areas of consumer impact and the nature of protection that might be required in relation to each. Ultimately it is Ofgem's role to ensure consumers are appropriately protected while supporting the changes needed as part of the energy transition which is aimed at delivering de-carbonisation of the electricity sector and attractive offers for consumers.

As an example I have set out in the attached annex suggested areas where Ofgem should think about the consumer risks involved around the nature of the tariffs, facilitating informed choice and benefits for all. This picks up on a number of issues raised in the call for evidence together but attempts to provide a structure for thinking about the range of consumer issues raised.

The approach of principles based regulation that Ofgem has been pursuing provides the flexibility to cover most if not all of the issues identified. However what may be needed in addition is for it to be made clear that a particularly high level of care is needed by companies in relation to certain "high risk" areas which Ofgem could identify and where it would expect higher levels of testing and monitoring by companies.

Close monitoring of the market by Ofgem will be crucial to identify early any issues arising and for robust action to be taken if companies are failing to treat customers fairly. This will require Ofgem to improve the levels of information it is able to access on consumption patterns for example if it is to judge the appropriateness of certain tariffs.

As an early exercise Ofgem would do well to carry out a deep dive on how Economy 7/10 customers are treated. Past evidence from Citizens Advice has shown for example low awareness of the time periods for which different rates apply. Exploring this – and taking action against companies who are falling short in terms of treating these customers fairly - would provide some early basic lessons and help set the right tone for more complex tariffs going forward.

I hope this is of assistance and do please get in touch if you wish to discuss further.

Yours faithfully

Maxine Frerk

Director Grid Edge Policy

Annex: Potential areas for Ofgem to consider in terms of consumer protection

The nature of the tariffs:

- Uncapped dynamic tariffs: without a cap on the maximum level that a dynamic tariff can reach customers would be taking on a significant risk in relation to extreme wholesale price spikes. The market seems to recognise this so existing dynamic tariffs (eg the Octopus Agile tariff) are capped and this should be seen as an example of treating customers fairly. I would not expect Ofgem to prescribe a maximum rate but to flag this as a high risk area in terms of treating customers fairly.
- Short notice dynamic tariffs: reflecting the way that wholesale prices evolve a true dynamic price might operate in real time linked to spot prices (and the EU Clean Energy Package would seem to require such tariffs to be offered). However for domestic customers, unless accompanied by automation, this would probably not be practical in terms of them responding to price signals. There is evidence from the Tempo tariff in France and from existing tariffs here that 24 hours notice is viewed as manageable by customers. Suppliers also need to be creative in thinking about how best to alert customers to what the next day's rate will be. Again I would not expect Ofgem to preclude shorter periods or to prescribe how notification should be done but to flag this as a high risk area.
- Interruptible / load limiting tariffs: Ofgem suggests that it would be concerned about tariffs that would take a customers' consumption below a certain "essential" level. I understand why this might be seen as a concern in particular in relation to customers in vulnerable situations. However Ofgem does not bar pre-payment meters (on which customers can lose supply if they do not top up) and customers always have the freedom to determine how much they will use to help balance their budget. If accepting the occasional time-limited interruption made their energy supply more affordable this is an option that I believe customers should be able to take, provided the implications are clear. Again therefore I would be wary of being prescriptive in this area but it should clearly be flagged as high risk.

Facilitating Informed Choice

- Proliferation of tariffs and comparability: Ofgem has recognised in the past that having a proliferation of tariffs in the market, all with different structures, makes it hard for customers to compare, with the risk that "confusopoly" can become a strategy for suppliers. How to tackle this is difficult as Ofgem's RMR remedies were found in themselves to be problematic and limiting competition. There could be a case for what was at one time called a "nursery slopes" time of use tariff which all suppliers would have to offer (if they were offering any time of use tariffs). This could have key features such as time periods set by Ofgem to aid comparability and would provide an entry route for customers who wanted a time of use tariff but did not feel equipped to compare the full range of tariffs.
- Avoid over-simplification: As always there is a tension between having a simple message or metric and painting a full picture to help consumers. I have for example highlighted in a recent blog the danger of Ofgem over-emphasising the savings for customers using typical consumption values. While this was intended as a simple metric to aid comparison it has

now become widely used in press releases etc without the necessary caveats that the level of savings will vary depending on consumption levels

- Advising on suitability (access to data): Past discussions have focussed on the need for the customer to be able to provide, for example, a year's worth of half-hourly data to allow a proper comparison to be made around the impact of moving to a time of use tariff and to enable informed choice. Again I would be wary of being prescriptive but absent such data (eg relying on general information about lifestyle) this should be flagged as a high risk area. Providing guarantees the customer will be no worse off is an approach that has been adopted, for example in some pilots, but undermines the incentives for behaviour change. It could nonetheless be a suitable protection for suppliers to offer at the start of a tariff or for vulnerable customers.
- Presenting savings with and without behaviour change: It is important that customers are clear what savings they would make on a tariff if they did not make any change to their usage pattern as well as what the potential savings are if they did change. If talking about the likely savings from behaviour change these should be based on evidence from what other customers have done and should be couched in practical terms of what sort of behaviours the customer would need to change to achieve a certain level of saving.
- Buyers guides: Both Ofgem and Citizens Advice are seen as respected commentators and sources of information about the potential savings available from switching tariffs. A valuable aid would be a guide produced by Ofgem or Citizens Advice to explain the different types of tariff and what customers should look out for on each.

Benefits available to all

- Prepayment customers: Some concerns have been voiced about how far pre-payment customers would be able to access the full range of different tariffs. It is assumed that this is an issue with current PPMs and that smart metering overcomes this (as the same meter is used for prepay and credit). It may be that some particular tariffs are difficult to apply in prepay mode but Ofgem should make clear that, as a general principle, pre-pay customers should be able to access the full range of tariffs.
- Disengaged customers: While Ofgem has been clear that vulnerable customers could not be forced onto time of use tariffs when they cannot benefit, perhaps the bigger concern is actually that vulnerable customers with flatter load profiles who would benefit from being on a time of use tariff do not do so as they are disengaged. Ofgem could for example make clear that suppliers should be proactive in identifying any customers on a Warm Home Discount who have a lower cost to serve (as a result of having a flatter profile) and ensuring they benefit in some way.