By Email Only

Anna Stacey
Head of Settlement Reform
Ofgem
10 South Colonnade, Canary Wharf, London,
E14 4PU
half-hourlysettlement@ofgem.gov.uk

29th March 2019

Name Richard Vernon
Phone 07825608088
E-Mail richard.vernon@npower.com

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

Dear Anna,

We have provided information below in response to the Ofgem call for evidence. We are generally supportive of the principles and strategy driving the move to market wide Half-Hourly (HH) settlements, however we remain concerned that the overall business case is optimistic as customer engagement with Time of Use (ToU) is difficult to predict and therefore a focus on keeping implementation costs to a minimum becomes increasingly important.

Customer interest will be decreased if ToU offerings are not clear, easy to compare with similar offerings or there is uncertainty in potential risk/benefit. However, if innovative solutions are to develop and become more widespread we would not encourage the regulator to introduce any new direct customer protections, other than perhaps restricting exit fees for domestic ToU arrangements. Existing supplier regulatory requirements should be sufficient to protect customers and allow the market to develop solutions that take advantage of new settlement arrangements and appeal to the end customer. We are in favour of introducing some form of Third Party Intermediary (TPI) regulation to provide additional customer protection, discussed further below.

We believe that Ofgem's final decision on access to data will have a direct impact upon the business case and Customer engagement. It is difficult to predict how customers will react in a conversation when presented with an opt-out 'for settlement purposes' option combined with an opt-in request for other reasons e.g. forecasting, billing. This could lead to customer confusion, reduce likelihood of customers engaging in future ToU products and reduce the number of customers that allow HH data to be used in settlements. Mandating data for settlement purposes is likely to reduce cost and simplify customer communication.

The methodology of how industry costs are allocated across the different settlement groups is a potential risk to customers. We would be very concerned if a larger proportion of industry cost (e.g. allocation of the group correction factor) is allocated to customers that either refuse smart meters, refuse access to HH data or are technically unable to participate in the HH market.

Appendix A, which I have attached separately is confidential. This covering note and Appendix B & C (our responses to the domestic and non-domestic questions) are not confidential.

Yours sincerely,

Richard Vernon / Regulation

npower

Npower Group limited
Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.npower.com

Registered office:
Npower Group limited
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 8241182

Appendix A - TOU debrief - Consumer Evidence (confidential)

Attached separately - TOU debrief, consumer evidence. We have previously provided you access to this consumer research, the findings inform our responses to the questions within Appendix B.

Appendix B - Responses to Ofgem Domestic Questions

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?

Customers are individuals and therefore a variety of communication methods is likely to better facilitate/encourage consumers to engage with their energy use. Some customers are particularly engaged and will seek to actively involve themselves in managing their own consumption and therefore are likely to seek more granular information, which should be available where possible. It's important that information for this type of customers is not only readily available but is also consistent between sources e.g. online tariff vs. In Home Display (IHD).

We find that the majority of customer have a passive approach to reducing costs and will expect the smart meter to do much of the work, which is unlikely to lead to widespread load shifting without an incentive. For passive customers we would suggest, providing data consent has been granted, that the bill is likely to be the biggest driver in communicating the potential savings that an individual customer could make if they engaged in a ToU tariff. With appropriate data consent customers could be provided with customised information on how their consumption patterns could fit or adapt to various ToU tariff options. This increased understanding may over time lead to a wider adoption of tariffs that reward customers with load shifting.

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.

Broad information about how the energy system works and explaining the causes and impacts of peak energy usage is likely to increase consumer background understanding. More detailed but easy to understand information could perhaps be held on web location.

On an individual basis, suppliers will not be able to discuss potential ToU type tariffs with a customer unless they provide consent for their data to be used for that purpose. Some customers will already have consumption patterns that would be well suited to benefit from a ToU type tariff, and these are likely to be the first customers to accept these tariff types. However, as these customers are not deviating from their normal behaviour and consumption, they will not provide a benefit to the overall business case for market wide HH settlements.

More difficult to engage will be customers who are currently peak users. Suppliers / TPI's will need to both sell the benefits of a ToU tariff and also support the customer in making changes to benefit from that arrangement. We will only see the business case benefits if these customers change their consumption patterns.

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.

Consumers are likely to increase engagement if the benefits of a ToU tariff are clear and attainable. For example tariffs where the customers will only see benefits, such as the 'rebate' tariff described

within the consultation document appendix. Equally, if tariffs are able to combine the cost of any technology (e.g. battery) to support (or guarantee) the customers load shifting ability, this is likely to be more popular. We are not convinced that the cost of technology is easily outweighed by the potential ToU benefit savings so perhaps re-use of existing technology such as Electric Vehicles (EV) is a more economical approach.

Question 2.3: Based on any relevant evidence you have collected,

a) what proportion of consumers would be price responsive?

Our customer research is not extensive enough to provide a figure in response to this question, however people generally spend very little time thinking about and managing energy usage. The proportion of customers that are likely to be price responsive is likely to be directly proportional to the potential savings i.e. more customers would be interested if there are more potential savings. Low savings won't be generally be considered by the majority of customers. Perhaps £5 benefit a month, similar to a bank account reward, would be a starting point for small behavioural changes.

b) what enablers would be important and what barriers might exist?

It may be sensible to target ToU tariffs at individuals that are potentially more able to adapt to using energy at off peak times such as people who are retired or who work irregular hours. There are other potential barriers that will become more clear over times such as the aesthetic properties of a storage battery and where it can potentially be stored inside/outside the customers property.

c) what volume of load shifting from peak to off-peak periods (%) will a consumer be able to offer?

Our customer research is not extensive enough to provide a figure in response to this question. There is only so much flexibility that people have outside of peak times without supporting technology. Households will only have so much adaptability when it comes to cooking food and heating and other essentials.

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?

We would suggest that over time customers understanding and appetite for change / risk is likely to adapt. Initially we would suggest that lower risk approaches such as the 'rebate' tariff or where technology is utilised (automation) are more likely to be accepted. Perhaps if these are successful in delivering adequate savings, customers may be more open to 'riskier' ToU type tariffs where they stand to make potentially bigger savings. For example, these could be to hand direct load control over to a third party or are more exposed to wholesale fluctuations in price (dynamic). To some extent the market may be driven by 3rd parties e.g. white good manufacturers with load shifting technology, however these would need to be combined with the right supplier tariff.

b) What are the risks and benefits of these approaches?

If earlier adopters of ToU / load control tariffs either lose out economically or have a bad experience, this will likely reduce the popularity of these products in the future. The converse may be true that if early products are successful, popularity may increase. A customer could have a bad experience if the product is not right for them, it's therefore very important that customers that agree and sign up to a ToU or load control tariff fully understand what they are signing up for and the product is appropriate. Within the next iteration of the Ofgem business case for market wide settlements, it

would be helpful to understand whether the payback early adopters see from ToU reduces over time, and whether this has an impact on the interest of later adopters?

c) How could those risks be mitigated?

There are a number of ways to mitigate the risk that customers only sign up for appropriate products. Clear explanation of the products is important, this could be combined with a quick and easy no fee product exit if the product is not right for that particular customer. Another approach could be to allow customers a trial comparing their existing product to a ToU product before it actually commences. This would help give customers a real feel for changes vs. benefit.

As mentioned previously, increased TPI regulations could reduce the risk of customers agreeing to ToU products that are not suitable for them.

d) Would certain types/groups of consumers favour certain approaches?

Yes, smart home engaged customers would benefit from a different approach when compared to presently less well engaged customers. We have provided a view of this in response to Q2.1.

e) Would certain types/groups of consumers be at greater risk of detriment from certain approaches?

Whilst all customers will benefit from system level changes, the value of direct change may be more difficult for some customers groups, which may be classed as vulnerable. For example, young families or those with certain medical conditions may find it more difficult to shift consumption patterns. customers?

The methodology of how industry costs are allocated across the different settlement groups is a potential risk to some customer groups. We would be very concerned if a larger proportion of industry cost (e.g. allocation of the group correction factor) is allocated to customers that either refuse smart meters, refuse access to HH data or are technically unable to participate in the HH market.

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

Question 2.5: 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?

Customers will continue to seek product comparison from TPI's, therefore increasing regulation here may be appropriate. Suppliers are best positioned to offer competitive products to consumers and offer regulated protection, should the customer require it.

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?

This is a personal choice alongside an economic one, some customers may not have the funds to spend on new technology regardless of whether there is a clear overall benefit whilst some customers will invest in new technology even if the business case is not that clear. To invest the customer must

have both the will and ability, which may make tariffs that incorporate the cost of technology more appealing to a wider number of customers.

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

There is absolutely the risk that more affluent customers would be able to invest in technology enabling them to make savings from load shifting, whilst less affluent customers are not able to do this. Products that include technology as part of the product are likely to be more popular with this group.

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)?

Some customer may have medical requirements that should be protected. Most customers will have a standby requirement, for example fridge/freezer and light/heating at certain times of day.

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

Providing that HH costs can be calculated accurately on a supplier basis and the network tariff is clear, the supplier can pass the benefit of any customer load reduction back to the customers who should similarly benefit. The exact benefit to networks from individual customer action of reducing (or perhaps increasing) load in certain periods is presently unclear and is very likely to be locational so customers will have more or less opportunity to gain network based benefits based on their individual geographical location, this information must be as clear as possible and available to the supplier at the time of pricing a customer's contract so that appropriate tariffs can be calculated.

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

No response.

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?

We would suggest that both awareness of new propositions and availability of trusted information may become barriers as technology develops.

b) How could these barriers be overcome?

No response.

c) Are there any particular concerns which may apply for certain consumer groups, eg vulnerable consumers (affordability and practicality)?

Fuel poor customers are potentially more likely to engage and save money through the right approach, for example if the engagement is driven by the local authority.

d) What further protection measures should be considered alongside these technologies?

Increased TPI regulation.

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)?

Initially, if technology is taken out of the equation, simple E7 or multi rate tariffs are more likely to be popular and easy to understand. Anything that is automatically optimised, for example a regular assessment of a customer consumption pattern against the right ToU tariff may also be preferable.

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

No response.

b) you expect may emerge following settlement reform

No response.

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?

No response.

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.

No response.

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

We believe that existing principle based obligations within the supplier licence will be adequate to protect customers. If new obligations are introduced we would argue that these would also need to be principle based to avoid restricting the necessary innovation to make ToU a viable tariff option. We are in favour of introducing some form of TPI regulation to provide additional customer protection.

Appendix C - Responses to Ofgem Non-Domestic Questions

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?

No response.

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.

Providing cost of different times of use individual premises. For business customers this could open up new products e.g. exposure to imbalance or network ToU. Savings would be the main driver here.

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

No response.

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 actively push and promote pass through options to our customers, but based on experience, we continue to find that smaller non domestic customers tend to prefer fixed price options. TPIs need to be in a position to accurately compare a range of pass through options. npower already offers a wide range of Time of Use and pass-through contract and tariff structures to non-domestic half-hourly settled customers. However the vast majority of customers (by customer number) still opt for “simple” one or two rate, ‘bundled’ contract structures.

It is worth noting that any transition to ToU contracts could have an impact on an end user’s profile of cash flow throughout the year – i.e. the cost reflective seasonality of charges that are currently borne by the suppliers would migrate to the consumer account.

Question 3.4: Based on any relevant evidence you have collected,

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

No response.

b) what enablers would be important and what barriers might exist?

No response.

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?

No response.

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?

No response.

b) What are the risks and benefits of these approaches?

No response.

c) How could those risks be mitigated?

No response.

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

No response.

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

No response.

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 above and in Appendix 4.

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?

A significant portion of the small non-domestic segment is TPI driven. There is a risk that TPI's may be disruptive to the communication between a supplier and end customer in some scenarios. Some TPI's may need to be encouraged (by the regulator?) to develop their portfolios based on the established benefits of ToU tariffs for their customers. This may require less sophisticated TPIs to enhance their price comparison approach and invoice validation role to ensure a variety of ToU tariffs can be accurately compared before they offer guidance to customers.

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?

No response.

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?

No response.

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.

No response.

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 chose to do so? How does this vary with sector and company size?

No response.

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 an innovative solution like battery storage? What specific protections may these consumers need? Would they be more likely to offer flexibility if it were automated?

No response.

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?

No response.

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?

No response.

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.

No response.

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 specifically the types of tariff options which

a) suppliers are already offering or are developing

No response.

b) you expect may emerge following settlement reform

No response.

c) Would 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.

No response.

Question 3.14: Considering any tariff options or packages you have developed, please provide any evidence of consumers' attitudes or response to them.

Some larger customer that are HH now do not opt for ToU products due to complexity and flexibility. Technology needs to meet the cost threshold of an organisation, this can be very individual – sometimes there are conflicting incentives within a customer organisation that make saving energy more complex.

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

We are in favour of introducing some form of TPI regulation to provide additional customer protection.