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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 first part of our response, which narrowly considers some of the financial implications 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.

The final potential consumer impacts statement does not highlight any of the resulting changes that will be financially detrimental to consumers, those being overlooked, with the focus being around load shifting and the greater consumer engagement required to realise it.

Part two of our response goes into greater detail and highlights the wider impact to both domestic and commercial customers, whilst further considering the detriment caused to many commercial consumers because of P272. Presently the current settlement process for former 05-08 supply points is resulting in an illogical charging lottery and the industry needs to avoid this with further reform.

It is more than 3 years since mandatory HH settlement under P272, what does the evidence show?

This is one of the most important questions and one that we believe should be answered by OFGEM, with supporting evidence that can be analysed by consumer bodies and interested parties.

As consultants to thousands of customers, to date, we haven't engaged with a single customer that has not found the change to financially detrimental, with the majority finding it challenging due to time constraints when attempting to agree new contract terms.

Given so, we have compiled our own evidence to support the financial detriment that customers with various consumption profiles, have experienced since P272 became mandatory more 3 years ago.

A review of the numbers – two comparison charts that speak volumes

The first chart is a simple cost comparison between a two rate 04 profile supply and an equivalent 05-08 profile supply, relative to commercial supplies in the EMEB region (DNO area 11), with the information extracted from mid-2015 supplier price books. Three suppliers have been used to compile the comparison, with each supplier's, Daily Charge, Day KWh price and Night KWh price being used to establish an average price for each charging element. Most suppliers issued prices based on profile and tariff type alone, consumption volume not being a factor in the prices available to the customer. Both 12 and 24 month contracts have been included.

OFGEM should note that the prices would apply to the typical Micro-Business customer as well as many customers that do not qualify as a Micro-Business. Most Micro-Business customers do not receive bespoke

prices and suppliers usually issued price books that detailed the same prices regardless of which profile from 05-08 was applicable to the customer.

Capacity charges (KVA) were not applicable in almost all instances (so have not been considered) regardless of whether the supply was connected via a CT meter, Whole Current meters not incurring capacity charges regardless.

We believe that this example below evidences the **best-case scenario** for a customer.

Pre P272 Comparison

DNO Region 11 - EMEB	**2015 03/04 profile v 05-08 Pricing**								
Consumption - Low - 20,000kwh	04 Profile				05-08 Profile				
Allocated capacity (KVA) - 10	Daily charge in pence	Day Units	Night Units	Annual cost	Daily charge in pence	Day Units	Night Units	Annual cost	% increase between profile classes
12 months	26.53	10.62	6.30	£ 2,004.68	69.20	10.51	6.40	£ 2,148.75	107%
24 months	27.77	10.93	6.53	£ 2,067.18	76.50	11.44	6.53	£ 2,321.48	112%
Consumption - Medium - 45,000kwh	04 Profile				05-08 Profile				
Allocated capacity (KVA) - 30	Daily charge in pence	Day Units	Night Units	Annual cost	Daily charge in pence	Day Units	Night Units	Annual cost	% increase between profile classes
12 months	26.53	10.62	6.30	£ 5,074.23	69.20	10.51	6.40	£ 5,215.32	103%
24 months	27.77	10.93	6.53	£ 4,524.47	76.50	11.44	6.53	£ 4,874.29	108%
Consumption - High - 88,500kwh	04 Profile				05-08 Profile				
Allocated capacity (KVA) - 80	Daily charge in pence	Day Units	Night Units	Annual cost	Daily charge in pence	Day Units	Night Units	Annual cost	% increase between profile classes
12 months	26.53	10.62	6.30	£ 8,539.01	69.20	10.51	6.40	£ 8,643.12	101%
24 months	27.77	10.93	6.53	£ 8,800.16	76.50	11.44	6.53	£ 9,316.18	106%

The above shows that prior to P272, customers that were profiled 05-08 paid more in every instance. The lower the consumption, the greater the difference. This was usually a result of higher daily meter charges. It is important to note that even back in 2015, there may be no actual difference between physical meter types of neighbouring properties and they could operate identically, with the same consumption and same demand at the same time, yet one is exposed to higher costs than the other, which was completely unfair.

This is the result of a complete lottery and nothing more than bad luck for a customer acquiring a property that has been incorrectly profiled as Maximum Demand. We have evidence that shows suppliers caused many customers to be incorrectly profiled, one supplier previously advising us that if a meter is capable of recording Maximum Demand, then it must be profiled as a Maximum Demand supply. This is of course incorrect. Many digital meters installed from the 1990's onwards have that capability, including all AMR and Smart Meters, however, that isn't the benchmark for profiling a supply.

The inconsistent approach within suppliers' own teams, in addition to that from supplier to supplier, led to significant financial determent to many customers. Remember, the table above should be considered the best-case scenario. A best-case scenario should not result in a low consuming customer paying between 7%-12% more for electricity than a customer with an equivalent meter type, profile, and business operation. That was however the reality back in 2015.

Some suppliers did not want to offer contracts to customers with low consuming Maximum Demand supplies and others were charging as much as £5 daily charge. The market was not as open and competitive as it should have been.

This left some customers with little choice and one of the Business Energy Direct team has informed me that as a result of the excessive charges, one customer terminated the lease for a property as the electricity costs were unsustainable because of their incorrect Maximum Demand status.

Visual context – two identical supplies, different profile classes

The above shows two units on an industrial park. Business Energy Direct manage accounts for several customers on this park. Each of the units has the same footprint and they are approximately 1000sq.ft. Each property has the same size electricity supply. A three phase 100amps per phase supply, connected to a Whole Current meter. The usage capabilities of each unit are identical and individually restricted by the fuse capacity.

Given so, then why should the occupier of Unit 5 pay £1825 per year standing charge when Unit 4 pays only £73 per year daily charge?

This is not an example created for impact in an attempt to make a point. This is a real-world scenario that we highlighted to Elexon (Kathryn Gay) and OFGEM (Stanislav Petrov and Paul Fuller) back in 2017, when attempting to downgrade the profile class on one of the supplies. During the communication exchange in May 2017, Elexon refused to answer the points we raised, when we referenced obvious errors in their response to us.

It should not come as a surprise that suppliers allocate the incorrect profiles, if they are being miss informed by Elexon, who cannot correctly convey the industry rules. The very rules and processes that they are responsible for managing and ones that are presented differently on their own website when comparing with the official document *Allocation of Profile Classes and SSCs for Non-Half Hourly SVA Metering Systems Registered in SMRS.*

The most noticeable error in our prior exchange with Elexon was the comment that supported the actions of suppliers: '*Any site which has a meter which records maximum demand should be Profile Class 05-08.'* Instead of this, we (and suppliers historically) should have been advised that the profile class allocation is dependent on whether Maximum Demand (MD) is **required** to be recorded.

The word 'required' being critical to the customer, as it impacts how they are charged in the future. Only critical because of the inappropriate industry wide charging mechanism. Again, if what was stated in the email to us was correct, there would already be millions of supply points with half hourly profiles, due to most digital meters dating back to the 1990's recording Maximum Demand.

Failing to be clear and concise is an industry standard and it is obviously not exclusive to suppliers. The lack of diligence and overlooking consumer detriment, is the primary reason why we are responding to the consultation and we believe that business consumers need their views to be appropriately represented.

It is not acceptable that the allocation of a profile class for a new supply can be determined by which division of a supplier a landlord or customer contacts to request a meter connection. That is precisely what has happened at the business park that has been used in this example. The landlord contacted the I&C division of one supplier to arrange a meter connection prior to a tenant moving in. This resulted in the allocation of an MD profile to be applied to the supply. The tenant of the adjacent property contacted the same supplier's SME department and was allocated a 03 profile.

We have attended both units and the meters are in a common location accessible to each unit owner. The meters are an identical type and even manufactured by the same company. A different mechanism for charging the two parties is impossible to explain rationally and impossible to rectify, as Elexon are refusing to allow suppliers to correct the error once a supply has been registered with a Half Hourly profile.

The same process continues to take place daily across the supply industry.

Suppliers do have an obligation within the BSCP516 to undertake a yearly review of site usage to ensure that the Profile Class is appropriate. We are not aware that suppliers actively do so, with profile class changes only taking place on around 1 in 1500 supplies that we manage. We would expect suppliers to report the number of changes annually to OFGEM / Elexon, however we cannot locate any evidence that suggests they do so, and this is likely another of the industry processes that is overlooked by suppliers and industry bodies.

The current problem with mandating HH settlement – P272 legacy issues

Profile classes in the commercial sector were and are supposed to be determined by the load factor of a supply point, with Maximum Demand only being applicable where the DNO required it to be recorded. The more efficiently the supply uses electrical system, the higher the load profile. The higher the load profile, the higher the profile number allocated. The intended benefit of that was and remains, lower average prices per KWh, therefore, a 08-profile supply is supposed to incur lower KWh charges than a 05-profile supply.

Referring back to the comments prior to the first price chart, for the most part, the MD profile did not make a difference to suppliers when issuing prices, customers received prices based on the duration of contract chosen, and the DNO the supply was connected via. Monitoring of supplier charging processes was not and probably still is not taking place, resulting in many customers not only paying higher charges because their supply is incorrectly profiled, but also paying an additional amount because of the supplier incurring lower DNO charges than were being incorporated into the contract prices.

The Maximum Demand mechanism was not introduced to monitor the load of customers that have low peak demand, with a consumption pattern that is not constant, yet this has been the class of customers often penalised. We believe that a more appropriate review of this class of customers should have taken place, prior to implementing P272 and setting the timeframe. Where appropriate, those impacted should have been (and still should be) permitted to downgrade profile class to 03/04, certainly those with Whole Current meters at the very least.

Presently, a customer acquiring a property with a CT meter, for a supply that was subject to reclassification due to P272 could incur charges of as much as £4200 in a year, without even turning a light on.

This is possible if the supply is allocated 138kva (the DNO limit for 200amp fuses – many of the former MD supplies will be fused at 200amps) on an assumed capacity agreement (or one agreed by a former occupier), charges for this KVA element being £2589 in the SHEPD region. Add these to the meter operator agreement (or supplier appointed pass through agreement) which is typically £400 per year (range around £200 - £700), also the possible requirement to have manual readings taken to collect Half Hourly data on a weekly basis, at a cost of £15 per week (required where the communication link is broken on a permanent or temporary basis) and a standing charge of around £200 per year, and it is clear to see how this can happen.

This is an extreme scenario; however, we have engaged with low demand customers that have been exposed to these very charges, which without our intervention would have resulted in approximately £2500 being paid. Not all impacted customers work with brokers or consultants and they should not find it necessary to. The lack of foresight is an avoidable problem and the same mistakes need to be avoided whilst prior to implementation of MHSS.

Those customers with supplies that have Whole Current metering that are also incorrectly profiled, are not impacted to the same extent, although the only difference being that they would not need to pay capacity charges.

Exposing customers to an uncompetitive marketplace

Aside from the difficulties that low consuming, post P272 HH customers already face when attempting to obtain competitive prices, (a result of a number of commercial suppliers not having the capability to supply this class of customer and many suppliers choosing not to provide a contract offer), there are also more than 13,000 supply points (so a similar number of customers) that have not been put through the P272 process, even though its more than 3 years since it was mandatory.

The mandate was for completion by 1st April 2017 and Elexon data shows that as of Q2 2017, 30,202 MPANs still needed to be put through the process. As of Q2 2020, 13,069 MPANs remain as Maximum Demand customers. That is 43% of the Q2 2017 volume. There may of course be valid reasons for some of these MPANs not being migrated to Half Hourly, however the number is far greater than it should be and not reflective of our customer base, Business Energy Direct only having one MPAN out of thousands, that hasn't yet migrated.

Customers responsible for the 13,000+ MPANs stand little or no chance of obtaining a competitive contract, because all but a few commercial suppliers refuse to offer contracts to customers that retain Maximum Demand supplies. This appears to be supported by the data available from Elexon. In Q2 2020 only two suppliers showed an increase in the number of MD supply points they have registered. The two suppliers may have seen a financial opportunity that others have missed and it becomes impossible to establish if the customers which have agreed with those suppliers, has or has not obtained a competitive price, because competition for MD

customers does not exist presently. We are doubtful that those customers received competitive KWh prices against equivalent meter types and business operations.

If OFGEM's intentions are to ensure that the energy market works for all customers and having seen that enforcement action was taken against a supplier (for failings relating to just 27 supplies with total detriment of £2237 – EDF overcharging Restricted Meter customers) when the implications were not far reaching, then OFGEM should not have overlooked the detriment faced by MD classed customers.

Failures to provide innovative tariffs

It is clear from review of pre P272 mandate consultation documents, that suppliers were expected to be innovative and create new Time of Use (TOU) tariffs for customers. That has not taken place, with only a few suppliers offering a Red / Amber / Green Half Hourly supply contract based on the DNO charging mechanism. The focus on shifting load has not been realised and we see no evidence of financial benefit either.

We believe that the primary reasons for this, is that most customers would not be able to shift load, their operation and own customer needs, dictating how power is consumed. Neither do we believe that the majority of suppliers wish to offer innovative tariffs, in fact, using evidence from the industry over the past 15 year, the number of tariffs available have reduced significantly.

We no longer receive Half Hourly (former MD) STOD contract offers when tendering for customers. The supplier pricing mechanisms often do not reflect the differences between DNO time of use charges. The baker who would once benefit from significantly reduced night prices, no longer receives benefits that are equivalent to what they once were.

Time of Use tariffs can be complex and difficult for customers to understand. For more than a decade smoothing out of charges has taken place, with most MD customers being offered Unrestricted or Day / Night contract prices. This has suited the most customers as it made it much easier for them to compare expected costs.

Delving deeper – not considering customer business operations

When responding to the P272 consultation in 2011, it was clear that suppliers were focused on how it impacted their own organisations and not on adverse effects that would impact customers. Business Energy Direct believe that history is repeating itself and the 13,000+ customers that still retain MD supplies, will be negligible in comparison to the number of Micro-Business customers that will be left unable to migrate to Half Hourly profiles.

Utilising the Elexon Supplier Market Share data and applying the same failure (to migrate to MD to HH) percentage at year 4 (11.2%), it would leave more almost 250,000 commercial MPANs in the same position as the current MD customers.

We predict that the failure rate would be significantly greater. Based on our portfolio, 60% of MD customers had CT meters, therefore 40% have Whole Current ones. When exchanging a CT meter, meter operators do not need to disconnect the electricity supply, meaning that customer operations can continue whilst the exchange is taking place. This is unlike Whole Current metering, where the fuses need to be withdrawn and power turned off.

We already know from our own AMR roll-out programme which has been in place since 2014, that customers are reluctant to allow exchanges to take place during operational hours. Neither do they want to pay an out of hours premium (around £100) or wait around for hours for an engineer to attend. Inevitably that reduces the exchange success rate and consequently the migration to Half Hourly profiles. We predict that the of the 13,000+ MPANs that have not yet migrated to HH from MD, that 75%-80% are Whole Current meters. We believe it would be appropriate for OFGEM to scrutinise that data, so that a clearer indication of the number of customers impacted can be identified. That enables further predictions to be made and considered alongside known customer behaviour.

Business Energy Direct predict that the number of 03/04 MPANs that will not have been migrated within 4 years, is likely to be between 350,000 – 450,000. This represents between 16% - 20% of that current market.

Business Energy Direct

Post MHHS price comparison

As seen in the previous comparison, financial detriment in a best-case scenario, was evident between the quarterly 03/04 profile supplies and MD profile supplies, for the same tariff type. This second price chart shows our view of the current best-case scenario for customers migrating to Half Hourly settlement from 03/04 profile classes.

	2020 Pricing - 03/04 Non Half Hourly Settled v Half Hourly Settled																
Consumption - Low - 20,000kwh	04 Profile				Once Half Hourly Settled - Whole Current Meter						Once Half Hourly Settled - CT Meter						
Allocated capacity (KVA) - 10	Daily charge in pence	Day Units	Night Units	Annual cost	Daily charge in pence	Day Units	Night Units	MOP contract	Annual cost	% increase from NHH settled to HH settled	Daily charge in pence	Day Units	Night Units	Kva charge	MOP contract	Annual cost	% increase from NHH settled to HH settled
12 months	45.27	15.57	10.94	£ 3,047.56	52.90	15.11	10.59	£ 400.00	£ 3,388.09	111%	61.33	15.32	12.26		£ 400.00	£ 3,602.34	118%
24 months	45.45	15.98	11.30	£ 3,128.21	53.17	15.38	10.80	£ 400.00	£ 3,440.07	110%	61.59	15.61	12.61		£ 400.00	£ 3,663.45	117%
Consumption - Medium - 45,000kwh	04 Profile				Once Half Hourly Settled - Whole Current Meter						Once Half Hourly Settled - CT Meter						
Allocated capacity (KVA) - 30	Daily charge in pence	Day Units	Night Units	Annual cost	Daily charge in pence	Day Units	Night Units	MOP contract	Annual cost	% increase from NHH settled to HH settled	Daily charge in pence	Day Units	Night Units	Kva charge	MOP contract	Annual cost	% increase from NHH settled to HH settled
12 months	45.62	14.91	10.60	£ 6,391.89	52.90	15.11	10.59	£ 400.00	£ 6,881.84	108%	61.33	15.32	12.26		£ 400.00	£ 7,375.82	115%
24 months	45.99	15.15	10.79	£ 6,494.48	53.17	15.38	10.80	£ 400.00	£ 6,997.57	108%	61.59	15.61	12.61		£ 400.00	£ 7,512.15	116%
Consumption - High - 88,500kwh	04 Profile				Once Half Hourly Settled - Whole Current Meter						Once Half Hourly Settled - CT Meter						
Allocated capacity (KVA) - 80	Daily charge in pence	Day Units	Night Units	Annual cost	Daily charge in pence	Day Units	Night Units	MOP contract	Annual cost	% increase from NHH settled to HH settled	Daily charge in pence	Day Units	Night Units	Kva charge	MOP contract	Annual cost	% increase from NHH settled to HH settled
12 months	45.62	14.91	10.60	£ 12,409.75	52.90	15.11	10.59	£ 400.00	£ 12,960.96	104%	61.33	15.32	12.26		£ 400.00	£ 14,043.77	113%
24 months	45.99	15.15	10.79	£ 12,610.21	53.17	15.38	10.80	£ 400.00	£ 13,187.62	105%	61.59	15.61	12.61		£ 400.00	£ 14,310.96	113%

Again, three suppliers have been used to compile the comparison, with each supplier's, Daily Charge, Day KWh price and Night KWh price being used to establish an average price for each charging element. Most suppliers issuing prices based on profile and tariff type alone, consumption volume not being a factor in the prices available to the customer. Both 12 and 24 month contracts have been included.

The majority of the 2.2m 03/04 profile MPANs are likely related to supplies operated by Micro-Business customers.

Due to industry requirements, presently, following migration to Half-Hourly settlement, the customers need to obtain separate meter operator agreements (or face supplier appointed MOP charges as a pass through charge), which as previously stated can range from £200 - £700 per year. The same pattern is once again evident, with low electricity consumers facing greater financial detriment than high consumers.

We have included pricing for supplies that are CT metered and currently 03/04, although the total number of these likely to be registered is relatively low. The future costs incurred by those customers is significantly more, with higher KWh prices being appliable and KVa now needing to be considered (03/04 profile customers with CT meters do not pay KVa charges).

Without significant pricing reform, changing pricing methodologies and reducing the cost of meter operator agreements for this class of customer, millions of business consumers are going to be faced with the prospect of higher costs.

The same challenges that existing low consuming (which some suppliers deem to be less than 1,000,000kwh) Half Hourly supplied customers are faced with, will continue post MHSS. If suppliers require Half Hourly data to be reviewed by pricing teams, prior to issuing a contract offer, presently, they require approximately 5 days' notice to meet a tender deadline. If a tender is issued to 10 suppliers, often only a few may respond. When they do respond, due to the Half-Hourly nature, suppliers often require customers to accept offers on the same day, before 4:30pm, so that the contract can be 'locked in'.

With an additional 2.2m MPANs to consider, the current process is entirely unworkable and appropriate direction to streamline processes and pricing methods, needs to be given to suppliers. The suppliers do not have enough resource available to manage the number of bespoke tender requests they would receive each day. Without process and system changes or pricing methodology and technology improvements, the energy market will not 'work for everyone' as intended by OFGEM.

Having presented our view of the best-case scenario, which shows an increase in costs ranging between 4% - 18%, OFGEM need to consider the customers subject to other factors, bespoke pricing being one. Poor advice and rogue third parties aside, it is quite feasible that some customers would see like for like increases inexcess of 30%, as a direct result of migration following MHSS.

Cost avoidance – unnecessary actions considered or presently being taken

Business Energy Direct provide end to end solutions for customers and we complete hundreds of new connections each year. As part of our diligence process we establish if existing connections at client properties meet or exceed operational requirements. We often find that landlords have installed high capacity electricity supplies to new units. Capacities that may be allocated 110KVa more than a customer's expected operational demand.

As brokers and solutions providers, we are expected to deliver savings to customer's, therefore we look at each of the different avenues to do so. A customer faced with the above scenario would need to be profiled as a Half Hourly customer. They would also be required to pay capacity charges. As already highlighted, this results in higher cost, which in this instance would range from around £2000 - £3500 before energy is consumed. With an adjustment of the agreed capacity, to a more appropriate 30KVa, more than £2000 could potentially be shaved off that higher amount.

That does however still leave the required meter operator costs, the higher average KWh prices that suppliers are quoting, higher daily charges, the reduced agreed capacity charges and the problem of attempting to

engage with an already dis-interested supplier market, who generally don't want the headache of arranging meter connections, especially not CT meter connections.

As a result of this, Business Energy Direct intervene and take action to remove these unwelcome and unjustifiable additional charges. We do this by engaging with the DNOs, who are usually reluctant to comply with our request, but ultimately a solution exists to ensure that the supply is allocated a non-half hourly profile class, although it still requires CT metering. The actions taken remove the capacity charge and the need for a meter operator contract, and the customer pays reduced KWh and daily charges, with more suppliers being prepared to offer suitable contracts.

This option is only available if a meter has not already been connected.

It absolutely should not be necessary to take any of this corrective action, yet to save customers thousands of pounds in the future, it is. There have been instances when customers that have inherited CT supplies, have seriously considered having the DNO disconnect the supply, so that they can install one that does not exceed their requirements so much, knowing that they will be financially better off in future.

Elexon's refusal to permit downgrading of profiles and the fact that Half Hourly pricing, for the most part, is not appropriate for low consuming customers, are exclusively the reasons for the actions needing to be taken and why some customers consider removing perfectly usable electricity supplies.

MHSS - Careful consideration of the financial impacts is crucial

Some suppliers responded to the P272 consultation, stating costs to supply Half-Hourly metered customers was greater. P272 went ahead regardless. Elexon commented post P272 implementation:

'the project and work was aimed solely at the Industry participants, rather than end customers'

'that more could have been done throughout the planning and implementation stages to engage with end customers'

'***The focus throughout the whole project seemed to be on 'just getting it done', not on the impacts or real benefits of the migration.***

OFGEM need to do everything possible to ensure that MHSS is a success for all and detrimental to none, if proceeding to mandate it. Hundreds of thousands of Micro-Business customers face significant challenges because of COVID and the current climate is unfavourable to many. None will appreciate having unnecessary, unjustifiable, higher charges imposed on them, because OFGEM failed to diligently consider all potential aspects of customer detriment.

Which leads to the final question, which OFGEM should provide evidence to support.

What has implementing P272 achieved?

Yours faithfully,

Simon Askew
Managing Director