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Dear Anna

I am writing in response to Ofgem's Request for Information in relation to electricity settlement reform.¹ Please find our responses below and do not hesitate to get in touch to discuss any of them.

2.01.01 What are the potential risks from settling consumers on actual data rather than profiles?

- Initially, the risk is on suppliers who will need to change their forecasting methodologies and their energy purchase strategies. If they are slow to adapt, they may be hit by greater imbalance costs as a result of which they may need to increase their prices. However, this should be mitigated by a sufficiently long transition period to the new system.
- There is a risk that suppliers will encourage consumers with high peak time usage to opt out of half-hourly settlement, in order not to be hit by higher costs.
- In the drive to a more cost-reflective electricity bill through smart meters, time of use tariffs, HHS, and soon new network charging rules, some consumers could see their bill rise to a level which they are unable to afford. 10.9% of households in England (2017)², 26.5% in Scotland (2016) and 23% in Wales (2016) were in fuel poverty.³ 30% of consumers said in 2017 that they were worried about paying for their energy bills.⁴ Whilst we have various schemes which help people pay their bills such as the Warm Homes Discount, such schemes may not be sufficient for a future energy market where peak pricing and the ability to be flexible determine your bill. There is likely to always be a minority of customers who are unable to reduce their peak demand and be flexible. Thinking ahead to a time when a price cap may not be in place to protect consumers from excessive prices, Ofgem, government and suppliers need to find ways to identify and protect such consumers.
- Related to the above, there is a risk that suppliers do not act in the spirit of the recently introduced principles around informed choices and customer communications, or that

¹ https://www.ofgem.gov.uk/system/files/docs/2019/08/open_letter_-_mhhs_rfi_voluntary_notice.pdf

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829006/Annual_Fuel_Poverty_Statistics_Report_2019__2017_data_.pdf

³ https://www.ofgem.gov.uk/system/files/docs/2018/10/state_of_the_energy_market_report_2018.pdf

⁴ *ibid.*

these prove insufficient for some consumers. Consumers may end up on tariffs that are not appropriate for them, being unable to pay the higher costs of the tariff they were moved on to, or changing their energy consumption behaviour in unsustainable or unhealthy ways, e.g. not turning on the heating at peak time despite being cold. In such cases, suppliers should consider waiving exit fees as part of the overarching requirement to treat customers fairly.

- As with the current energy retail market, the role of third-party intermediaries (TPIs) in promoting time-of-use (ToU) tariffs may well be prominent. We established a series of broad recommendations in our recent policy report Future for All that are applicable for TPIs advertising ToU tariffs; principally that consumers must be able to understand the benefits and risks of a service before signing up. However, TPIs have also themselves expressed concern - most recently at Ofgem's TPI Forum - at the complexity implications of HHS and successfully harnessing this new level of data to provide an accurate comparison and estimate of costs. TPIs also currently sit outside the sectoral regulatory framework and there is no obligation on them to use actual data when comparing or choosing tariffs for a consumer, meaning consumers risk being put on an inappropriate ToU tariff based on estimated consumption.
- Suppliers may not pass on the benefits of HHS and other system changes that result in savings to consumers.
- With the postponement of the smart meter rollout deadline we may see only 85% of consumers with a smart meter in 2024.⁵ There may be a risk that people who cannot be HHS through no fault of their own won't be able to access certain offers and tariffs and therefore savings, and have higher bills than necessary.
- We are concerned that NHHs customers that will be settled using load shapes will end up paying more than under the profiling system. One reason for this could be that, since HH customers on time of use tariffs will be charged on a cost-reflective basis, suppliers would spread the remaining costs across NHH customers only. Compared to profiling times, when this was the majority of customers, in the future the amount of NHHs customers will be a minority. Particularly we are concerned for those customers who end up in this category through necessity rather than choice, for example because they cannot have a smart meter.

In its impact assessment, we expect Ofgem to consider the distributional impacts of the new settlement system. For example, will all types of consumers (such as those with different meter types and usage patterns) be equally well served, and how will costs be distributed between different consumer groups?

⁵ Due to the proposed leeway of 15%

<https://www.gov.uk/government/consultations/smart-meter-policy-framework-post-2020>

We are keen to understand the remaining or possibly new inaccuracies the load shaping service will bring with it. For example, it is possible that, for whatever reason, usage patterns of HHS households are not representative of those of non-HHS households. It will be important to monitor whether there are any significant differences between the households who are and are not HHS.

2.07 What benefits might your organisation derive from the introduction of MHHS for exported electricity? (Exported electricity covers electricity exported to the grid from generation sources as well as from non-generation sources (such as battery storage / EVs etc.))

- HHS of export electricity would enable consumers to be paid the right amount for the electricity they export - which for some will be less and for others will be more than they are currently paid. Particularly those consumers who generate at times when the grid needs it most will see the greatest value. We expect that, with more accurate data around how much a consumer produces when, suppliers can develop more attractive offers around export tariffs.
- In the longer term and on a system-wide level, we'd expect to see lower system costs and therefore lower overall costs to the consumer.

2.10 What effect would different implementation timetables have on the operational costs/benefits you have estimated in this section in relation to IMPORT MPANs? Please give estimates for the following possible implementation deadlines: 2 and 4 years after publication of the Full Business Case.

- A later introduction of HHS for demand could mean that consumers wait longer for the benefits of HHS. However, that is based on the assumption that the majority of consumers will have a smart meter soon. As mentioned above, the latest estimates show that as little as 85% of consumers will have a smart meter by 2024. Therefore the benefits case may hinge on the number of smart meters on walls at any point in time between those 2 to 4 years.
- If by "implementation timetable" Ofgem means the period during which suppliers can (but don't yet have to) use HHS, then we could see a greater distributional impact between those consumers who already are HHS and those who are not. We do have concerns that there will be differences in how these groups are treated, the costs they pay, the tariffs they can take up.
- The benefits of a later implementation could be that suppliers have longer to make the required system changes, develop products and offers, and prepare customer communication updates.

2.11 What effect would different implementation timetables have on the operational costs/benefits you have estimated in this section in relation to EXPORT MPANs? Please give estimates for the following possible implementation deadlines: 0 and 2 years after implementation of MHHS for import MPANs. We wish to better understand the impact of adopting different implementation deadlines for export and import.

- From a consumer perspective, the later the implementation of HHS for export, the later the potential individual value of higher export payments and the communal value from system benefits will reach the consumer.
- The benefit of implementing export and import HHS at around the same time would be that, from a consumer communication perspective, consumers could be engaged in a conversation around settlement on export and import on one occasion only.
- However, we do understand that this may not be practical given the technical and administrative issues around MPAN registration for export. It will be essential to ensure suppliers proactively and clearly engage with consumers during this process.

6.00 What impact will MHHS under the preferred TOM have on competition between suppliers and other retailers? We are particularly interested in the potential effects on market entry, new business models, innovative retail offerings and/or services. However, if you believe other competition impacts are also relevant and material, please also cover them here.

- The preferred TOM leaves space for suppliers to compete on efficiency of meter data retrieval and processing, as well as of course all types of tariffs and services they may want to offer consumers.
- The preferred TOM appears to be positive for smaller entrants since the settlements process will be simpler, faster and should mean lower credit cover costs.
- We welcome that the TOM supports multiple and different parties (other than the supplier) contracting with consumers. This is crucial to engender competition between suppliers and other retailers.
- We understand Ofgem is also keen to make the TOM able to deal with dataflows from sub- and mobile metering. This may be important to make certain business models and offers work.
- The TOM could support the development of new technologies or other innovations by providing HH Meter data (in aggregate form or from individual MPANs) to new participants. However, such data provision would need to have tight governance arrangements and privacy rules around them.

- We are concerned that making the mandatory minimum data collection from smart meters drop down to daily reads would have negative impacts on competition. As the Data Access and Privacy Framework (DAPF) states, its goals are to “promote competition and innovation in the developing energy services market” and⁶ “place the onus on energy suppliers to clearly explain why they wish to access this information and incentivise the development of products and services to offer to consumers in return for more detailed access”⁷. The current model of opt outs to monthly reads incentivises suppliers to compete to deliver better customer service and benefits. It also creates a level playing field between suppliers and energy service providers, which would be taken away if suppliers got automatic access to daily HH data and were allowed to use it for purposes other than settlement.

6.01 What impact will MHHS under the preferred TOM have on suppliers' incentives to engage effectively with their customers to promote load shifting and other changes to their consumption behaviour?

In a future with market-wide HHS, there will be some incentives for suppliers to help their customers adjust their consumption behaviour but it will likely depend on how individual suppliers respond to them. Crucially, we think that these incentives will be greater if customers retain the power over who accesses their HH data.

- *Customers with low energy use at peak time:* suppliers would be less incentivised to change these customers’ consumption behaviour compared to customers with high peak-time consumption. If a supplier has a ToU tariff, it may encourage these consumers to take it up and thus save on their bills without behaviour adjustments.
- *Customers with high energy use at peak time:* as mentioned in our earlier response, there is a risk that suppliers may encourage such consumers to opt out of HHS. However, we hope this will be an exception and that suppliers will be incentivised to offer customers with high peak usage a ToU tariff that signals to move their consumption away from peak time. The “informed choices” principles⁸, should mean that suppliers will need to ensure the ToU tariff they recommend is appropriate to the consumer’s characteristics and preferences. The customer communication principle should help ensure that suppliers further engage their customers on how to get the most out of that tariff.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486352/DAPF_Consultation_Response.pdf

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/758281/Smart_Metering_Implementation_Programme_Review_of_the_Data_Access_and_Privacy_Framework.pdf

⁸ Helping consumers make informed choices (2017) Ofgem

https://www.ofgem.gov.uk/news-blog/our-blog/helping-consumers-make-informed-choices?utm_medium=email&utm_source=dotMailer&utm_campaign=Daily-Alert_27-07-2017&utm_content=Helping%20consumers%20make%20informed%20choices&dm_i=1OCB,52NFY,NZRSZN,IF3WF,1

Supplier behaviour will also likely depend on whether a price cap is still in place. If there is a price cap for SVT and single rate tariffs but not on ToU tariffs, this may act as an incentive for suppliers to get disengaged customers on a ToU tariff.

Besides offering a ToU tariff to influence a customer's consumption behaviour, suppliers can offer other services such as bespoke energy saving advice. To deliver such advice, suppliers need access to HH energy consumption data. We believe the best way to incentivise suppliers or any other company to deliver useful services to consumers that make use of their HH data is by letting the consumer retain control over who accesses their HH energy usage data and in what detail.

Yours sincerely

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