



ELECTRICITY RETAIL MARKET-WIDE HALF-HOURLY SETTLEMENT

SEPTEMBER 2020

INTRODUCTION

[Fair By Design](#) welcome the invitation to respond to Ofgem's consultation on the Electricity Retail Market-wide Half-hourly Settlement.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Carl Packman:

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About Fair by Design

Fair by Design is dedicated to reshaping essential services, such as energy, credit and insurance, so they don't cost more if you're poor. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, loans and credit cards with high interest rates; and insurance, through post codes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust manages our advocacy work, and Ascension Ventures manage the Venture Fund.

OUR RESPONSE

Fair By Design welcomes the opportunity to respond to Ofgem's consultation on the Electricity Retail Market-wide Half-hourly Settlement (MHHS). Fair By Design is not in a position to answer some of the more technical aspects of the consultation, but has some insight to share on some of the potential impacts that the movement towards a market-wide half-hourly settlement may have on consumers, particularly those on low incomes.

We are broadly supportive of Ofgem's preferred delivery mechanism and timeline which provides a strong method for how the half-hourly settlement (HHS) will be delivered by firms. We are pleased to see the focus that Ofgem has put in this consultation on the impact that the half-hourly settlement will have on consumers. While we support the development of new kinds of tariff and product innovations (which will be incentivised by the HHS) it is similarly vital that the needs and wishes of consumers are considered at every stage, to ensure nobody is left behind in the transition to new models of service delivery.

Summary of recommendations in this response

In this response we recommend the following actions:

- We would like Ofgem to provide much more information on how consumers who cannot be flexible on when they use their energy will not be disadvantaged by MHHS. Especially those on low incomes and/or who are experiencing vulnerable circumstances.
- Protections for consumers need to be strengthened to say that whatever the scenario no energy consumer will end up paying more for their energy as a result of MHHS. Also, that no consumer will end up paying more for their energy as a result of disengagement by choice or for other reasons.
- In terms of specific consumer protections, we echo the call from colleagues at Citizens' Advice for a more proactive commitment rather than acting when problems arise. Price protections are a proportionate solution to this, especially once price caps come to an end.
- Ofgem should provide more clarity on how suppliers can engage with third party intermediaries to help ensure those who are more likely to be "disengaged" can still obtain some of the money saving aspects of these proposals. The justification for this being that often "disengagement" is through no fault of the consumer's own, and can be for entirely understandable reasons such as 'time-poverty'.
- MHHS should be inclusively designed¹ so it meets the needs of all consumers, especially those who may have additional needs or who experience vulnerable circumstances – the likes of whom often are forgotten in the design process of an innovation.

¹ <https://fairbydesign.com/news/inclusive-design-in-essential-services/>

- We urge Ofgem to focus the current smart meter rollout specifically on prepayment customers who stand to benefit the most and to be unashamedly ambitious for the poorest.

Questions

Do you have additional evidence which would help us refine the load shifting assumptions we have made in the Impact Assessment?

Do you have any views on the issues regarding the consumer impacts following implementation of MHHS? Please refer to the standalone consumer impacts paper we have published for more detailed information.

Fair By Design is broadly supportive of the aims of MHHS. We recognise MHHS is an opportunity to enable improved energy service options, reduce consumer energy costs, and help to reach net zero targets.

As we understand it, the biggest users of electricity (e.g. industrial companies) have been able to settle how much electricity they are consuming half hourly for many years. It is potentially very exciting that smaller businesses and households will soon be able to benefit from half-hourly settlements, and for information on how much energy they are consuming sent to suppliers in a faster time. The potential for suppliers to tailor in a much more specific way the types of tariff that a household would benefit from most, using half hourly settlement information, is very compelling from our perspective.

Whereas it was once considered too expensive to install meters reading consumption every half hour for lower users of electricity (e.g. households), this is no longer the case with smart meters.

One of the hopes for MHHS, for Ofgem, is that it may “in the longer term, encourage more consumers to engage in the market, directly or indirectly, as they take up products which reward them for shifting usage away from peak times.” On this point for example we are aware of, and excited by the transformative potential that, time of use (TOU) tariffs have for consumers wishing to save money by using energy at off-peak times when demand is lowest and therefore cheaper (or ‘load shifting’). As our work deals with the extra costs that low income consumers pay for their essential services, we are very enthusiastic about ways for these consumers to save money, with TOU being one good example.

However, we would be concerned that not all consumers stand to benefit equally from this transition. Our knowledge of the ways in which many consumers engage with the energy market tell us that those who are already very engaged stand to benefit much more than those who don’t. As Ofgem mentions in the consultation document, “Consumers with existing load shifting capacity or future flexibility potential could benefit financially by saving on their energy bills and, in some cases, generating revenue, **while others may need help to do so**” (Our emphasis).

Similar to Citizens’ Advice, we are concerned about those consumers who may be at risk as a result of these changes. In particular we are worried about the following:

- Consumers settled using non-half hourly settlements once MWHHS is implemented
- Consumers opting out of half hourly settlements and having a relatively larger group correction factor during peak time
- Consumers on static tariffs during MWHHS if market focuses solely on delivering peak shifting incentives
- Consumers on smart tariffs with punitive peak pricing - particularly vulnerable users with high energy consumption and limited capacity to load shift.

It is likely that these consumers will more likely be vulnerable and/or on low incomes. Those who are vulnerable and/or on low incomes will be disproportionately more likely to experience harm as a result. Therefore it is very important that there are protections that are fit for purpose for these consumers in advance of implementing changes with regards to MHHS.

On this issue we are primarily interested in two things: firstly, **to ensure no consumer is ultimately penalised by paying more for energy use at peak times**, if that is the only time they can use energy. And secondly, **identify the role that third party intermediaries can play in helping consumers save money through load shifting**.

We echo our colleagues at Citizens' Advice in supporting incentives for consumers to change their behaviour through passing on pricing signals (e.g. notifying when it might be more cost-effective for the consumer to carry out household activities that require more energy usage). However, recognising and acknowledging that not all consumers will find these signals accessible and those that do will be rewarded at the expense of those that can't unless the distributional impacts are addressed.

We would like Ofgem to provide much more information on how consumers, especially those on low incomes and/or who are experiencing vulnerable circumstances, who cannot be flexible on when they use their energy will not be disadvantaged by MHHS (as it says on p.26 of the impact assessment). At the moment there is insufficient information provided for how the regulator can ensure this, and what part suppliers have to play in ensuring this, too.

Ofgem's impact assessment assumes that suppliers will pass on savings from MHHS through efficiency and wholesale energy costs to all consumers. This includes those without smart meters. However, protections for consumers need to be strengthened here to say that whatever the scenario no energy consumer will end up paying more for their energy as a result of this policy. Also, no consumer will end up paying more for their energy as a result of disengagement by choice or for other reasons (as noted on p.14 of the [MHHS Consumer Impacts Paper](#)).

Ofgem accepts some of the risks of these changes to vulnerable consumers. To quote at length:

"some vulnerable consumers may be unable to engage at all because they cannot access/afford new products/services, eg where it requires upfront purchase of expensive equipment like a storage battery. These consumers may need more support and protection

to understand the offer, engage/benefit directly or help address any adverse price impacts if these arise. We will remain vigilant and monitor impacts on all consumers, especially consumers in vulnerable situations, considering how offers are communicated to them, and will be prepared to act quickly where we see problems arising.”

We want to reiterate our point that missing out on potential savings is one thing, but on price of energy use this change should not adversely impact those who can't, or choose not to, engage with MHHS. Otherwise this change would serve to benefit those who are already engaged in their energy use (which tends to privilege those that are better off and/or who stand to gain more from consumer engagement) over those who aren't. In our view this wouldn't be fair.

It is worth noting who stands to lose from a set of changes that are reliant on consumer behaviour change and greater consumer engagement. Evidence from the University of Bristol's Personal Finance Research Centre [looking at the poverty premium](#) found that nearly three-quarters (73 per cent) of low-income households had not switched fuel supplier in the last two years, and this was higher still among the digitally excluded (83 per cent)². Many policy changes have to compromise on gains and losses, but when the losses are projected to impact many of the most vulnerable disproportionately this is ultimately unfair.

In terms of protecting consumers, we echo colleagues at Citizens' Advice for a more proactive commitment rather than acting when problems arise. We feel price protections are a proportionate solution to this, especially once price caps come to an end.

On the role of third party intermediaries, we are keen to explore what part social housing providers can play in helping consumers obtain the benefits from MHHS. As with so many innovations in energy service, accessing the benefits often requires digital savviness and time. While there isn't a direct correlation, this tends to negatively impact those on lower incomes (where there is disproportionate levels of time-poverty and digital exclusion³).

As Citizens' Advice has noted, in order to benefit from MHHS directly there is a high bar for engagement with energy. This includes whether directly or with support to complete the following tasks:

1. Understand a smart tariff
2. Recognise and predict a positive economic or environmental value proposition and potentially accept any downside risks

² <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf>

³ As the Competition and Markets Authority has previously said: “having a low income is correlated with many other dimensions of vulnerability which themselves can negatively affect an individual's ability and inclination to engage in a market. These include the other factors discussed in this paper - poor mental health, physical disability and old age – and many others, including low levels of education, digital exclusion or being time-poor, among others.” (p.18 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782542/CMA-Vulnerable_People_Accessible.pdf)

3. Agree contract
4. Accept half hourly data collection
5. Execute energy demand use behaviours
6. Be able to monitor the value in comparison with other tariffs
7. Be able and willing to pay a potentially more volatile bill
8. Seek access to redress if a smart tariff does not perform as promised

This is where a social housing provider could play an advocacy role: acting as a conduit between suppliers and consumers helping them realise the benefits of load shifting. Ofgem should provide more clarity on how suppliers can engage with third party intermediaries to help ensure those who are more likely to be “disengaged” can still obtain some of the money saving aspects of these proposals. The justification for this being that often “disengagement” is through no fault of the consumer’s own, and can be for entirely understandable reasons such as ‘time-poverty’.

There are greater benefits to be obtained from MHHS if using a smart meter. Therefore, it is worth making the point that low income and/or vulnerable groups stand to benefit from the transition to smart meters over using legacy meters. Smart meters offer more information to suppliers on what kinds of service (including what tariffs) would be better suitable for particular customers. If a customer is likely to fall into vulnerable circumstances, smart meter readings are able to give more accurate information on self-disconnections or self-rationing behaviour. Furthermore, relevant to what we now know about customer experiences during covid-19, offering customers emergency credit would’ve been simpler and less expensive for suppliers if more customers in need were using smart meters.

As a result of the above, we feel it is relevant to draw on a previous recommendation Fair By Design has made to Ofgem about the focus of the rollout. While the overall rollout deadline is now 2024, we feel there is a very strong case to prioritise who benefits from the rollout in the meantime. To that end we urge Ofgem to focus the current smart meter rollout specifically on prepayment customers who stand to benefit the most and to be unashamedly ambitious for the poorest.

Finally, as a matter of course, something like this that requires more consumer engagement should be designed with consumers actual lived experiences in mind, rather than an ideal for how consumers “ought to” engage. Therefore we would recommend that MHHS should be inclusively designed⁴ so it meets the needs of all consumers, especially those who may have additional needs or who experience vulnerable circumstances – the likes of whom often are forgotten in the design process of an innovation.

⁴ <https://fairbydesign.com/news/inclusive-design-in-essential-services/>