Npower Commercial Gas Limited MHHS position

Npower Commercial Gas Limited is supportive of Ofgem's final decision to implement Market wide HH settlement (MHHS) reform across the entire electricity market. We believe it will prove to be a key enabler in unlocking the flexibility that our electricity system requires to support this country's transition to net zero and the growth of emerging technologies by making the most efficient use of existing infrastructure to reduce the need for additional investment on future generation and network assets to the benefit of electricity consumers. We are pleased that Ofgem has outlined an industry led approach to support the implementation of Market wide HH Settlement reform across the market for which we hope P432 will support.

Cost comparisons

My challenge back is the relevance of comparing total contract values for supply contracts WEF 01/09/20, as it does not consider the incoming changes to costs via the network charging reforms which will take effect in April 23 since the example quotation date, Therefore I do not believe the cost comparison will accurately reflect the likely consumer impact of P432. It is clear that the cost comparison demonstrates variance of costs for NHH, WC HH & CT HH based on a total contract value quote for a group customer dated 01/09/20 however there are a number of factors that any supplier will consider within its inbound cost stack which informs its pricing offers to the market, Some of these are commercial decisions/ supplier discretion (e.g. commission payments, imbalance risk etc) and others will be formed on the basis of how costs are allocated (e.g. time of use charges per HH rather than by NHH profile). Therefore the variants in price per site cannot be answered with exacting accuracy due to such factors making up pricing offers, but I would like to share my thoughts on possible reasons.

One notable contributing factor I recall in play in 2020 that could impact a supply contract starting 01/09/20 is the different Distribution Use of System (DUoS) tariffs charges levied at the time going along similar splits, to illustrate this the below extract shows WPD's published schedule of charges for April 2020-21 for the EMEB region:

Tariff name	Open LLFCs	PCs	Unit charge 1 (NHH) or red/black charge (HH) p/kWh	Unit charge 2 (NHH) or amber/yellow charge (HH) p/kWh	Green charge(HH) p/kWh	Fixed charge p/MPAN/day	Capacity charge p/kVA/day	Exceeded capacity charge p/kVA/day	Reactive power charge p/kVArh	Closed LLFCs
Small Non Domestic Unrestricted	13	3	1.959			6.64				22, 34, 43
LV Network Non-Domestic Non-CT	247		7.703	1.551	0.828	6.64				
LV HH Metered	58, 990		5.719	1.310	0.813	9.96	2.76	5.79	0.146	

Part of this difference in costs has been already been addressed by DCP268, which simplified the non-domestic DUoS tariff arrangements down from 7 tariffs to 1 when implemented on 01/04/21. It resulted in all non-domestic (NHH & HH) WC metered customers being moved onto the same DUoS tariff and so may explain some of the variance between NHH & WC HH seen in the below cost comparisons, but not CT HH which will also have attracted the KVA charge.

I'd like to offer some additional detail regarding cost impacts considered for April 23+ :

Targeted Charging Review (TCR)

The MHHS full business case has a reference to P272 lessons learned (paragraph 3.10) outlining the TCR modifications (due to take effect in in April 22 & 23) as directed by Ofgem have been progressed to reduce harmful distortions and were based on informed consumer research findings that determined non-domestic consumers (particularly those who can load manage to avoid charges) are not paying their fair share of the residual network total cost. The TCR is expected to lead to an increase in wholesale market prices during peak periods over the years by fixing the residual part of the network bill that has incrementally increased the domestic share of these costs. This will be remedied by making those costs fixed in both the domestic & non-domestic market and so require DNO's (DUoS) & NGESO (TNUoS) to recover costs based on 4 non-domestic connection types (LV WC,LV CT HV CT & EHV CT) and consumption (aggregated tariffs) or capacity (site specific charges).

The move to connection type derived network cost recovery partly enables the industry's arrangements link between network costs (Both DUoS & TNUoS) and settlement method (NHH or HH) derived to be moved away from the current Measurement Class (MC) assigned to an MPAN. As P432 has been raised as an enabler to facilitate the transition into MHHS Target Operating Model which does not facilitate NHH methods of settlement in the advanced segment, as such it is my opinion that NHH CT must move to HH settlement and in doing so will require most of the MPANs to move from LV WC charges to LV CT network charges.

The TCR will also reform the Transmission Use of System (TNUoS) costs and the impact on consumers is something that is carefully considered when informing the timings of when to commence moving these CoMC NHH-HH, this was also informed the by the CCDGs recommendations which went through a consultation process and Ofgem's response recommended moves forward through the code modifications for which P432 forms part of.

DUoS impact

This in itself will drive changes to costs associated to affected consumer bills however that does not necessarily mean that cost changes that will be caused by P432 are upwards, for example using WPD's published schedule of charges for April 2023-24 (which is the proposed P432 mandatory migration to HH window) for the EMEB region it is clear that fixed costs are higher in the applicable HH LV Site specific band (band 1 up to 80KVA and band 2 between 81-150 KVA) however the time of use cost components are lower than the applicable NHH Non-domestic Aggregated charging band that NHH CT customers will be on from April 2023 (band 3 = Annual consumption 12,553KW -25,279KWh & band 4 25,780Kwh+). This means that it is possible the overall DUoS cost could be lower for HH CT customer dependent on how much electricity a site consumes under P432 as HH settlement means energy consumed can be accurately apportioned to the DUoS RAG time periods, which in itself provides an incentive for suppliers to offer time of use tariffs as is incentivised in Ofgem's FBC for MHHS.

Tariff name	Open LLFCs	PCs	Red/black unit charge p/kWh	Amber/yellow unit charge p/kWh	Green unit charge p/kWh	Fixed charge p/MPAN/day	Capacity charge p/kVA/day	Exceeded capacity charge p/kVA/day	Reactive power charge p/kVArh	Closed LLFCs
Non-Domestic Aggregated Band 3	N13, N23, N33	0, 3, 4, 5-8	6.036	1.365	0.114	44.71				
Non-Domestic Aggregated Band 4	N14, N24, N34	0, 3, 4, 5-8	6.036	1.365	0.114	123.23				
LV Site Specific Band 1	58, 990	0	4.536	0.994	0.083	208.58	3.26	6.18	0.154	
LV Site Specific Band 2	L02	0	4.536	0.994	0.083	357.56	3.26	6.18	0.154	

I believe that the DUoS tariff change that will happen as consequence of P432 (if approved) is the most impacting cost change on consumer bills, the table above shows new cost items that become effective once HH CT moves from aggregated to site specific DUoS charging as was also the case under P272. As such there is very much a need for suppliers and Distribution Network Operators (DNOs) respectively to ensure it's communicating to its customers that they need to put in place connection agreements with their host DNOs, and helping customers to inform the capacity level they will require which I've outlined under the potential impacts sections of P432's modification proposal form, it is for these reasons P432 proposes a 6 month planning & preparation period prior to the mandated CoMC window opening in April 23.

TNUoS impact

The Existing NHH & HH WC TNUoS charge is derived from KWh consumption between 16:00-19:00 and charged Daily, the existing HH CT+ yearly charge is derived from 3 highest HH peaks in national demand over the winter season on a £ per KWh basis (AKA TRIAD charges), in both NHH & HH the charge is currently a volume based charge. As previously mentioned, and subject to the final decision on CMP343, TNUoS residual costs move from being volumetric derived costs to fixed costs under the same charging band structure so mirrors that of DUoS effective from April 2023. As I've outlined in the modification proposal form, if we were to commence any earlier then these consumers would be caught up in double charges in the annual TNUoS bill overall due to the differences in NHH & HH TNUoS charges in play today, it's also important to note this also impacted NHH CT MPANs moving to HH under P272 but could not have be avoided as there was no changes in the pipeline to the TNUoS charging arrangements at that time, and so may also explain some of the unexplained cost uplifts consumers experienced under P272.

It's for this reason I have been explicit under P432 that CoMC activity must not start until April 2023 in order to mitigate unjustifiable costs on consumer bills given the TCR change.

Metering Costs.

I also note a point regarding metering costs, I don't disagree that the cost for agent services is higher for HH when compared to NHH however it is a justifiable cost implication because:

- CT meters (regardless of NHH or HH) carry additional cost burdens due to requirements to record & maintain metering accuracy testing over both the transformers and physical meters, as defined in the meter commissioning process and COP 4.

- Meter technicians are required to obtain additional qualification to be able to work on CT metered connections, so carries with it different safety training and maintenance requirements to WC connections, which ultimately comes at additional cost to metering businesses.

- Simply being HH settled incurs a greater cost to serve, because settlement performance targets in the current HH market requires suppliers to meet 99% of actual reads by R1 (approx.35 days) as opposed to the NHH measure of 97% by RF (approx.) 14 months, as well consumer billing accuracy commitments. This means the expectation of suppliers to correct faults with meters (e.g. comms failures) and obtain the HH consumption data has a requirement to be in settlement and consumer bills (assuming supplier bills to HH data) a lot quicker than they otherwise would for NHH settlement, which comes at a cost.

NHH CT meters are perceived to be a cheaper cost primarily because a gaining supplier does not know a NHH meter is CT when agreeing a new supply contract (this comes after within the registration process) or it may assume that all NHH is WC metered within pricing structures because the vast majority of today's NHH market are WC metered. This is information which is not available to industry in registration data currently however supporting REC modification R0032 and BSC CP1558 propose to introduce a connection type indicator aligned to the TCR charging bands, which (if approved) also addresses other market issues (e.g. where an appointed suppliers agents staff are not qualified to work on CT metering systems) and that may enable suppliers to price in costs associated for CT metering services even whilst NHH more accurately, so that cost to serve the physical meter is better reflected in consumer bills.

It is not in the scope of P432 to enforce any commercial decisions as to what and how suppliers or supplier agents provide offers to the market, or to impose cost restrictions on supplier agent services as these are not factors under BSC governance, However I do agree this is a consumer cost that is very likely to impact consumers impacted by P432 as the metering service provisions can also better reflect the connection equipment in use. This should be considered on balance with all other CT metered consumers as the 50K consumers in scope of P432 are not paying a comparative costs for its metering service VS the 250K who are already HH settled today. All CT metered customers currently settling HH are subject to these costs and consequently supplier's generally make allowances for customers to choose their own agents, thus enabling competition for agent services to drive those costs, something which is also clear given the range in cost differences for agent services mentioned in the below email.

On this basis I am more than happy for this to be called out as a potential consumer impact in the modification report.

Other

I also note a number of retail issues (tender turn around takes too long, not many suppliers offer HH market offers etc.) that TPIs and customers face for HH quotes, again I don't disagree that these challenges exist in the retail market however each supplier has choice as to how it engages the market with its offerings, along with what market segments and consumer types it provides market offerings to, and I believe that should remain the case for the very same reasons some TPIs only operate in the non-domestic space because it's a choice for each business to determine what markets it plays in and how they engage within its chosen markets, therefore I don't believe this issue is in the scope of P432 or of relevance to the BSC.

In terms of the challenge that "It's impossible to explain to typical customers why the adjacent premise that has the same meter type, same operating hours and same demand, pays 13%-14% less for electricity" – this is one area that I am in full agreement with Simon on albeit it was clear we don't agree on the method following the WG 1 discussion. I The combined reforms being implemented over the next 2 years under TCR & MHHS SCRs supporting industry changes R0015 , R0032 , CP1558 & P432 will largely address this problem by:

- aligning settlement to the TCR SCR charging band structures, and:
- moving away from Profile Class (PC) and Measurement Classes (MC) once the physical connection type is known

it is evident that market participants and in turn consumers alike have different understandings of what PCs and MCs drive at an MPAN level so causes confusion and discrepancies that influence costs and charges, both received into suppliers cost stack and reflected in consumer prices. By only

deriving network costs on connection type it is clear at the physical meter point the type of connection in place so is a firm foundation to base costs and charges on, as it cannot be mis-interrupted. Ownership of the connection type data would belong to the DNO's registration responsibilities removing suppliers from mis-understanding and/ or incorrectly changing registration data that effects how networks costs are allocated creating clear transparency.

Visibility of the connection type in registration enables suppliers to appropriately price for those consumer groups meaning some of the cost variables are known and can be proportioned in a fair and practical manner that can be explained to consumers easily, and any inaccuracies can be challenged and confirmed on site simply by checking viewing the physical connection type.. We know that in the future there will not be a cost drive between NHH or HH settlement methods once we reach the MHHS TOM as NHH will no longer be a market feature, so I am confident this will contribute to benefits to the general consumer population being treated fairly and removes the distortions that create this happening in today's market regardless of method of settlement. However I do want to be clear that P432 does not aim to resolve the situation entirely because non-advanced CT meters are not proposed to be captured in the P432 mandate as agreed at workgroup 1, This will be pushed back into the MHHS programme to consider how best to handle meters caught in this situation, however I do believe it will improve the situation.

Conclusion

It is clear that MHHS will happen as outlined in Ofgem's final decision documents and I think it's important that we have an awareness that all electricity consumers are already paying for facilitating this transition at this time as that's how the MHHS programme is funded, As such in the event P432 is rejected by Ofgem it will not prevent NHH advanced metered CT consumers being required to move HH settlement in the future as that has been addressed by the authorities consultations, detailed consumer impact assessments, cost benefit analysis etc over both the TCR & MHHS SCR decision making processes.

P432 aims to facilitate HH settlement for advanced CT metered customers and I feel it has carefully considered consumer impacts, taking learnings from P272 we are furnished with the knowledge that NHH CT customers are more complex to move to HH settlement for many reasons highlighted in this email which we feel only supports the timeline proposed, giving time for exception issues to be rectified before migration to the MHHS TOM. P432 will create cost changes as HH site consumption data become visible in settlement creating a link to load shifting incentives already facilitated in DUoS charges, with stronger incentives expected as we transition towards MHHS. The benefits of HH settlement outlines suppliers will face the true cost of supplying electricity and that can only reflect on consumer bills as charges can be derived in line with how and when electricity is consumed incentivising load shifting, as opposed to the small consumer sample profile that informs NHH PCs that the vast majority of consumers are grouped together today which does not.

P432 and so we need to be open and honest about this so that consumers know what to expect when April 2023 comes about, along with wider market reforms that are necessary to open up future benefits and is a key reason why we have proposed this change.