

## **Annex 5 – Request for Information 31 May 2018 – results of analysis**

***This was included as part of CMP287 Workgroup Consultation and has not been amended***

This document, which has been prepared by the ESO outlines the process followed for the analysis of the data received in response to the Request for Information issued on 31 May 2018 by NGESO (hereafter, “the RFI”).

### **Background:**

On 31 May 2018, NGESO issued the RFI to request that Suppliers share information relating to any risk premia they include within consumer pricing to mitigate potential TNUoS volatility. The RFI was left open for four (4) weeks. Respondents were asked to send their responses directly to the NGESO representative for CMPs 286 & 287. The RFI asked whether Suppliers currently included – in their ‘fixed price’ contract offerings - risk premia specifically for TNUoS, the value of such premia (split by Non-Half Hourly (NHH)/Half Hourly (HH) and contract duration) and the value of such premia if either or both of the relevant CMPs were implemented. Suppliers were also invited to add any individual commentary that they believed would aid in the assessment of the modifications.

### **Responses:**

- The ESO has deleted all original responses and no longer has information as to which Supplier gave which values;
- To assist in maintaining confidentiality of responses, the number of respondents has not been shared with any person external to the ESO (on the basis that a respondent could potentially reverse-engineer approximations of other Suppliers’ premia if they knew how many parties’ data was involved);
- One response was excluded from all calculations because the respondent is not a Supplier and inclusion of their data would skew the averages unnecessarily;
- Some responses were not in the requested format and needed to be converted (e.g. ranges were provided) – no manipulation of the data has otherwise taken place

### **Assessing the effect of the mods:**

- The p/kWh values:
  - Each Supplier’s data was pulled into one overall ‘master’ sheet to serve as a working document;
  - Unweighted averages of the premia currently used in 12, 24 and 36 month contracts, split by NHH and HH, were derived, as were those potentially to be used following implementation of either or both mods being approved;
  - Both percentage and absolute variances were then noted and are shown in Table 1;
- The Workgroup agreed that a total £m value would be beneficial in illustrating the effect of the mods. To that end:
  - For Domestic Consumers, ESO used both Ofgem’s Typical Domestic Consumption Values<sup>1</sup> (“TDCV”) and BEIS/ONS’ publication on the total aggregate domestic consumption in 2017<sup>2</sup> to find that a typical (medium user) Domestic Consumer will use 3100kWh/year, and all Domestic Consumers in aggregate used 105391GWh in 2017;
  - Multiplying the TDCV by the average NHH 12, 24 and 36 month risk premia as it stands today, and as it would under either or both modifications, provides an illustration as to the notional annual effect of the modifications as illustrated in Table 2;

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<sup>1</sup> <https://www.ofgem.gov.uk/gas/retail-market/monitoring-data-and-statistics/typical-domestic-consumption-values>

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/729317/Energy\\_Consumption\\_in\\_the\\_UK\\_ECUK\\_2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/729317/Energy_Consumption_in_the_UK_ECUK_2018.pdf)

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- A £m total was derived by considering the total Domestic volume which is ‘fixed’ (using recent Ofgem publications it was determined that 44% of Domestic volume is in fixed price contracts) and so multiplying the average NHH 12, 24 and 36 month risk premia as it stands today and as it would under either or both modifications provided an illustration of the notional aggregate annual effect of the modifications as shown in Table 3;
- The Workgroup agreed that information relating to the split between the Domestic MWh volumes attributable to 12-month, 24-month and 36-month contracts was not available and as such asked the ESO to provide further scenario modelling using hypothetical percentage splits between the three contract durations. The resultant output is shown in Tables 4a – 4g
- Information relating to the contractual arrangements in the Non-Domestic market could not be obtained by this Workgroup. Initially it had been considered that it might be possible to make some broad assumptions - for instance, one Supplier provided the ESO with a typical MWh consumption value for a HH Non-Domestic consumer, which, alongside the Micro Business threshold of 100MWh (per the Standard Conditions of the Electricity Supply Licence) could have been used to model the potential MPAN-level effect of the modifications for typical HH and larger Micro Business consumers; the Proposer stated, however, and the Workgroup broadly agreed that it was better to leave this sort of modelling to the Authority if they felt it would be beneficial to their decision-making process. As a result, there is no information provided regarding the materiality of the effect on individual segments or consumer types within the Non-Domestic market. Table 5 shows the effect of both modifications on the whole Non-Domestic market, using DUKES<sup>3</sup> data for the remaining total consumption.

### **Assumptions/parameters agreed by the Workgroup:**

- All other things being equal;
- All Domestic Consumers are NHH;
- Unweighted UK consumption data used – GB data unavailable;
- The values in the BEIS/ONS data relating to Domestic consumption in 2017 would remain static, as would the TDCV and the DUKES base UK consumption;

***NB: in all Tables, negative values indicate an increase in premia***

**Table 1 – typical premia and notional variances:**

<b>Premium description</b>	<b>12 month p/kWh</b>	<b>24 month p/kWh</b>	<b>36 month p/kWh</b>
NHH current average	0.028	0.073	0.070
HH current average	0.012	0.045	0.030
NHH under 286	0.021	0.040	0.073
HH under 286	0.009	0.016	0.036
NHH under 287	0.019	0.037	0.071
HH under 287	0.008	0.014	0.035
NHH under both mods	0.010	0.030	0.075
HH under both mods	0.005	0.009	0.041
<b>Variance</b>	<b>12 month contract</b>	<b>24 month contract</b>	<b>36 month contract</b>

<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/736152/Ch5.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/736152/Ch5.pdf)

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% change NHH - 286	25%	45%	-6%
% change HH - 286	20%	66%	-21%
% change NHH - 287	32%	49%	-2%
% change HH - 287	29%	69%	-15%
% change NHH - both	63%	59%	-8%
% change HH - both	61%	81%	-36%

**Table 2 – consumer-level effect of modifications, domestic:**

<b>Risk Premia Description</b>	<b>Value</b>	<b>VAR</b>
Total current Domestic, 12 month	£0.86	-
Total current Domestic, 24 month	£4.52	-
Total current Domestic, 36 month	£6.47	-
Domestic under 286, 12 month	£0.64	£0.22
Domestic under 286, 24 month	£2.49	£2.03
Domestic under 286, 36 month	£6.83	-£0.36
Domestic under 287, 12 month	£0.58	£0.27
Domestic under 287, 24 month	£2.32	£2.20
Domestic under 287, 36 month	£6.63	-£0.16
Domestic under both, 12 month	£0.32	£0.54
Domestic under both, 24 month	£1.87	£2.65
Domestic under both, 36 month	£6.97	-£0.50

A Domestic Consumer on a 12-month plan currently pays £0.86 per year in TNUoS risk premium. Under CMP 286, that consumer would save £0.22 per year in premium, £0.27 under CMP 287 and £0.54 per year if both modifications were implemented. Consumers on 36-month contracts would see their risk premia costs increase.

**Table 3 – aggregate effect of modifications, domestic, no portfolio weighting:**

<b>Type</b>	<b>Value</b>	<b>VAR (£)</b>
Total fixed kWh	46,372,040,000	-
Total current domestic premia £	26,292,946	-
Total 286 domestic premia £	20,728,301	5,564,644
Total 287 domestic premia £	19,708,117	6,584,829
Total both £	17,806,863	8,486,083

Broadly, Domestic consumers spend in aggregate c.£26m per year on Supplier TNUoS risk premia. This value could drop by c.£8m per year if both modifications were implemented but the individual effect on a consumer is determined by their contract duration.

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*The total current domestic premia, and potential premia under 286/7/both in £ were derived by multiplying the average NHH risk premia (smeared across all contract durations, unweighted) for each scenario by the domestic volume associated to 'fixed' contracts.*

**Table 4a – aggregate effect of modifications, domestic – if all fixed price Domestic contracts were of a 12-month duration**

If 100% of Fixed Price Domestic Volume ("FPDV") was on a 12 month			
Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total "current" domestic premia £	12,790,954	-	
Total 286 domestic premia £	9,544,911	3,246,042	25%
Total 287 domestic premia £	8,694,757	4,096,196	32%
Total both £	4,753,134	8,037,820	63%

**Table 4b – aggregate effect of modifications, domestic – if all fixed price Domestic contracts were of a 24-month duration**

If 100% of FPDV was on a 24 month			
Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total current domestic premia £	33,774,302		
Total 286 domestic premia £	18,587,459	15,186,843	45%
Total 287 domestic premia £	17,350,871	16,423,430	49%
Total both £	13,950,255	19,824,047	59%

**Table 4c – aggregate effect of modifications, domestic – if all fixed price Domestic contracts were of a 36-month duration**

If 100% of FPDV was on a 36 month			
Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total current domestic premia £	32,267,211		
Total 286 domestic premia £	34,044,806	-1,777,594	-6%
Total 287 domestic premia £	33,040,078	-772,867	-2%
Total both £	34,740,386	-2,473,175	-8%

**Table 4d – aggregate effect of modifications, domestic – if Domestic contracts were split evenly 33% on 12, 24, 36 month**

If 33% of FPDV was on a 12/24/36			
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Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total current domestic premia £	26,014,714		
Total 286 domestic premia £	20,518,468	5,496,246	21%
Total 287 domestic premia £	19,498,283	6,516,430	25%
Total both £	17,636,446	8,378,268	32%

**Table 4e – aggregate effect of modifications, domestic – if Domestic contracts were split 50% on 12-month, 25% on 24 & 25% on 36**

If 50% of FPDV was on a 12 month (25% on 24, 25% on 36)			
Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total current domestic premia £	22,905,855		
Total 286 domestic premia £	17,930,522	4,975,333	22%
Total 287 domestic premia £	16,945,116	5,960,739	26%
Total both £	14,549,227	8,356,628	36%

**Table 4f – aggregate effect of modifications, domestic – if Domestic contracts were split 50% on 24-month, 25% on 12, & 25% on 36**

If 50% of FPDV was on a 24 month (25% on 12, 25% on 36)			
Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total current domestic premia £	28,151,692		
Total 286 domestic premia £	20,191,159	7,960,533	28%
Total 287 domestic premia £	19,109,144	9,042,547	32%
Total both £	16,848,507	11,303,184	40%

**Table 4g – aggregate effect of modifications, domestic – if Domestic contracts were split 50% on 36-month, 25% on 12, & 25% on 24**

If 50% of FPDV was on a 36 month (25% on 12, 25% on 24)			
Type	Value	Benefit (£)	Benefit (%)
Total fixed kWh	46,372,040,000	-	
Total current domestic premia £	27,774,919		
Total 286 domestic premia £	24,055,495	3,719,424	13%
Total 287 domestic premia £	23,031,446	4,743,473	17%
Total both £	22,046,040	5,728,879	21%

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**Table 5 – aggregate effect of modifications, Non-Domestic, assumes 50% NHH, 50% HH, smeared premia across all contract durations**

Aggregate effect on Non-Domestic Market, 50/50 NHH/HH split			
<b>Type</b>	<b>Value</b>	<b>Benefit (£)</b>	<b>Benefit (%)</b>
Total Market Consumption, 2017, kWh	353,000,000,000	-	
Total Domestic Consumption 2017, kWh	105,391,000,000	-	
Total Non-Domestic Consumption 2017, kWh	247,609,000,000		
Total Current Premium (£)	105,844,023		
Total if 286 implemented (£)	80,513,098	25,330,925	24%
Total if 287 implemented (£)	75,910,361	29,933,662	28%
Total if both implemented (£)	69,767,815	36,076,208	34%