Decision

Decision on adjusting standing charges for Prepayment Customers

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This is our decision on adjusting (or 'levelising') standing charges for prepayment meter (PPM) and direct debit (DD) customers from April 2024, with an accompanying reconciliation mechanism. This will make payment methods more equal or equitable (but less cost-reflective). We also signal our current intention to levelise debt-related costs across standard credit (SC) and DD customers following industry development and build of a volumetric reconciliation mechanism and in the context of our wider work on the Operating Costs Review and our forthcoming work on debt and affordability in the energy market. Before the end of the first year, we will review the impact and operation of the levelisation of PPM and DD standing charges and consult on the levelisation of SC and debt-related costs, including a new methodology for Fixed Tariff Contracts (FTCs), for implementation from April 2025.

We have carefully considered all responses to the preceding statutory consultation and have published non-confidential responses.

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Executive Summary

Under the default tariff cap ('the cap'), we have typically followed the principle of cost-reflectivity. We consider that this has generally provided benefits to consumers, allowing costs to reflect the efficient cost to serve, while providing efficiency incentives for suppliers and improving supplier financeability. However, this typically results in prepayment meter (PPM) and standard credit (SC) customers paying higher bills, relative to direct debit (DD) customers, which can result in negative consequences for some consumers, such as increased risk of additional debt or increased self-disconnection or rationing.

The cost-of-living crisis has placed an additional burden on customers' ability to afford their bills. Coupled with further research on the heightened vulnerability of consumers within PPM and SC payment methods and updated analysis in our Impact Assessment (IA), we have decided there is a case for 'levelisation'. This is the process of adjusting specific costs between payment methods to make charges more equal or equitable but less cost-reflective, where we consider cost-reflectivity may not be the most appropriate approach to cost assignment from the range of possible approaches.

The first detriment that we are looking to address is the difference in standing charges between PPM and DD, due to higher operating costs but leading to PPM customers incurring more debt during periods of low or nil consumption. The case for this has been made particularly acute through the almost doubling in standing charges over the past year, with further increases in the coming price cap period. We are reviewing the role of standing charges in the retail market and are currently reviewing responses to our Call for Input.[1]

This document provides our decision to proceed with levelisation Phase 1, the levelisation of PPM and DD standing charges from 1 April 2024, supported by a reconciliation mechanism. Before the end of the first year, we will review the impact and operation of the levelisation of Phase 1 and consult on the levelisation of SC and DD debt-related costs, including a new methodology for Fixed Tariff Contracts (FTCs) as this policy includes uncapped tariffs.

Phase 1 provides continuity of support for PPM customers following expiry of support through the Energy Price Guarantee (EPG) in March 2024. This means that while the benefits of the EPG for PPM customers will continue, the costs will be bill-funded, rather than taxpayer-funded. As we note in our decision on the bad debt allowance in the price

[1] Ofgem (2023), Standing charges – call for input https://www.ofgem.gov.uk/publications/standing-charges-call-input

cap,[2] moving costs between bill-payers inevitably creates winners and losers and we must consider the consequences carefully. The £52 benefit for PPM customers comes at a cost of £10 per DD customer.[3] We consider that the increase in cost to DD customers is justifiable for the various reasons set out in this document. The income weighted analysis shows a net benefit of £112m for Phase 1, demonstrating the benefit to those on low incomes outweighs the costs overall. In addition, there are expected reductions in total debt of £12.3m (including bad debt of £0.4m) and working capital requirements of £1.5m.

Implementation of levelisation is supported by our approval of the change proposal R0147,[4] which introduces the necessary governance and charging arrangements into the Retail Energy Code to facilitate standing charge reconciliation between suppliers. This is approved alongside our decision on amendments to the licence conditions, to enable implementation of the levelisation reconciliation process from 1 April 2024.

We reached our decision following a Call for Evidence[5] in April 2023, a policy consultation[6] in August 2023 and a statutory consultation[7] in November 2023. We have considered feedback provided in response to our statutory consultation and updated our analysis accordingly.

In this decision, we also lay out our current intention to proceed with the levelisation of SC and DD debt-related costs from April 2025. We will make our final decision in the context of our forthcoming work on debt and affordability in the energy market and the Operating Costs Review. In considering the levelisation of SC and DD debt-related costs, we will further examine issues raised, such as the risks to FTC market competition, and whether these can be mitigated by options including fixing the levelisation rate when the FTC contract commences or forecasting the levelisation rate over a 12-month period.

If we proceed with both PPM and DD standing charge levelisation and SC and DD debt-related costs levelisation from April 2025 (Phase 2), we currently estimate a reduction of £31.9m in total debt (including £1.0m in bad debt) and £3.9m in working capital requirements and a net income weighted savings of £223m.

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[2] Ofgem (2024), Energy price cap: additional debt costs review decision
https://www.ofgem.gov.uk/publications/energy-price-cap-additional-debt-costs-review-decision
[3] Impacts are inclusive of VAT
[4] Ofgem (2024), Authority decision on REC modification proposal R0147 - Prepayment Levelisation
https://www.ofgem.gov.uk/energy-policy-and-regulation/measuring-impact-our-policy-decisions
[5] Ofgem (2023), Levelisation of payment cost differentials: a call for evidence.
https://www.ofgem.gov.uk/publications/levelisation-payment-method-cost-differentials-call-evidence
[6] Ofgem (2023), Levelling the cost of standing charges on prepayment meters.
https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters
[7] Ofgem (2023), Changes to prepayment meter standing charges and other debt costs
https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs

1. Introduction

Chapter summary

We provide the context for our decision, the consultation process we have gone through to reach that decision and how to respond. It also provides an overview of each of the Chapters in the consultation and related publications.

1.1 The cost-of-living crisis has placed increased strain on people's ability to afford energy, leading to a range of negative consequences including health and wellbeing impacts. These concerns are particularly acute for prepayment meter (PPM) customers who are at the greatest risk of self-disconnection, bringing concerns over the premiums that these consumers pay to the forefront.

1.2 The highest number of vulnerable customers pay by direct debit (DD) as it is currently the most popular payment method, but the PPM customer cohort currently has the highest proportion of disabled, chronically sick and low-income customers of any payment method. This means that the PPM cohort is a defined group, with higher average vulnerability, that we are able to target now. At present, they pay slightly lower unit rates but higher standing charges[8] than DD customers. Higher standing charges are driven by fixed operational costs. Lower unit rates are driven by lower working capital costs and bad debt risk as PPM customers pay in advance.

1.3 The Chancellor announced in the Spring Budget[9] that the Energy Price Guarantee (EPG)[10] would support PPM customers so that they do not pay a premium for their energy, achieved by a discount to the PPM standing charge. The EPG is due to end in March 2024 and, without a similar scheme in place, PPM customers will see their bills rise. To prevent this, a discount of £52 (inclusive of VAT) needs to be applied to PPM standing charges, but as this scheme is bill-payer rather than taxpayer funded, it will come at a cost of £10 (inclusive of VAT) per DD customer. The decision to increase DD customer bills is not one that we take lightly, and we have tested, throughout the

[8] Throughout this decision, we refer to levelising 'standing charges'. In practical terms, we are referring to the Benchmark Maximum Charges at nil-Consumption allowed under the cap. This is the maximum a supplier is allowed to charge a consumer at nil-consumption under the cap and is therefore the implied standing charge cap. Suppliers are however permitted to choose their own unit rate and standing charge as long as the total amount charged to a customer at benchmark consumption is equal to or below the published cap level.
[9] HM Treasury (2023), Spring Budget. https://www.gov.uk/government/publications/spring-budget-2023
[10] Department for Energy Security & Net Zero (2023), Energy Price Guarantee. https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022

consultation process, whether that transfer actually benefits customer and the market overall.

1.4 Currently, disabled, chronically sick, and low-income customers form a higher proportion of standard credit (SC) customers than DD, although this is lower proportionally than of PPM customers. SC customers pay the highest standing charges and unit rates due to both fixed operational costs (causing the standing charge differential) and higher debt-related costs (most of which scale with consumption so apply to the unit rate).

1.5 As DD is the most popular payment method (69.3% (+0.6% from Oct' 2023) of customers pay by DD, compared to 17.3% (-0.3%) pay by SC and 13.4% (-0.3%) pay by PPM), it includes the highest absolute number of vulnerable customers compared to other payment methods:

Table 1: Numbers of vulnerable customers paying by each payment method

	DD	PPM	SC
Low income	15.2m	4.6m	4.7m
Disabled and chronically ill	10.7m	3.2m	3.0m
Pensionable age	11.5m	0.8m	1.6m

1.6 Historically, we have taken a broadly cost-reflective approach to the allocation of debt-related costs, enabling suppliers to recover efficient costs. This, however, results in those customers most at risk of generating bad debt, paying more to account for this, and ultimately generating a higher total debt burden. By the very nature of setting tariffs across cohorts, rather than on an individual basis, cost-reflectivity on an individual basis is flawed. It is not the only approach we can take to cost allocation in the cap where we consider there to be alternate approaches in consumers interest. For example, in our COVID-19 true-up[11] and additional debt costs decisions,[12] we equally allocated additional costs between DD and SC customers.

1.7 The cost-reflective approach has also resulted in significant increases to standing charges for domestic customers since 2021, driven predominantly by network cost

[11] Ofgem (2023), Price Cap – Decision on the true-up process for COVID-19 costs https://www.ofgem.gov.uk/publications/price-cap-decision-true-process-covid-19-costs
[12] Ofgem (2024), Energy price cap: additional debt costs review decision https://www.ofgem.gov.uk/publications/energy-price-cap-additional-debt-costs-review-decision

increases, and in the latest cap period have increased again. Ofgem has recently launched a Call for Input (CFI) to better understand the impact of and seek views on the role of standing charges in the retail energy market, and how this could or should change in the future.[13] This CFI has now closed and Ofgem is considering responses. We will publish a statement on the feedback received, proposing next steps in due course.

1.8 While this decision influences the relative magnitude of standing charges for different payment methods, the contributing factors to those standing charges, and how standing charges may evolve in the future, is considered through the Standing Charges and Operating Costs[14] Reviews. This means that our approach to levelisation may necessarily change in the future, but we are making our decision on levelisation now to mitigate a detrimental increase in PPM costs following the removal of the EPG.

1.9 In April 2023, we published a Call for Evidence (CfE) on approaches to the levelisation of payment method cost differentials.[15] Levelisation is the process of adjusting costs between payment methods to make charges more equal or equitable. We presented our initial analysis on consumer impacts by payment method, with a focus on distributional impacts, as well as supplier impacts. There was broad support for levelisation but there was a range in views on the approach that we could take. The responses are available on the Ofgem website.

1.10 Following this, we published a policy consultation in August 2023 on levelling PPM and DD standing charges which sought views on the case for doing so, relevant considerations and initial proposals for levelisation as well as options for the reconciliation mechanism.[16] There was overall support for the need to levelise, the case for change and our reconciliation proposals. However, there was limited support for our preferred option to levelise PPM and DD standing charges only; most

[13] Ofgem (2023), Standing charges – call for input. https://www.ofgem.gov.uk/publications/standing-charges-call-input

[14] Ofgem (2023), Energy price cap operating cost review benchmarking working paper https://www.ofgem.gov.uk/publications/energy-price-cap-operating-cost-review-benchmarking-working-paper

[15] Ofgem (2023), Levelisation of payment method cost differentials: a call for evidence. https://www.ofgem.gov.uk/publications/levelisation-payment-method-cost-differentials-call-evidence

[16] Ofgem (2023), Levelling the cost of standing charges on prepayment meters. https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters

respondents thought we should also levelise debt-related costs between SC and DD customers.

1.11 After considering feedback and performing further analysis, we further developed our position and published a statutory consultation[17] in November 2023 setting out our updated proposal. We proposed a two-phased approach:

- **Option 2 (now referred to as Phase 1)**: Levelising PPM and DD standing charges from April 2024
- **Option 3 (now referred to as Phase 2)**: Levelising PPM and DD standing charges and DD and SC debt-related costs, not allocating any of the debt-related costs to PPM customers, from earliest October 2024

1.12 We also proposed supporting our proposals with a market-wide reconciliation mechanism, to allow suppliers to recover more cost-reflective costs.

What have we decided?

1.13 This document sets out our decision on the policy and implementation of levelising PPM and DD standing charges (Phase 1), supported by a standing charge reconciliation mechanism, from April 2024. We are currently minded to, but have not made a final decision, to also levelise debt-related costs between SC and DD customers, alongside levelising PPM and DD standing charges, from April 2025 (Phase 2).

1.14 We have approved the change proposal R0147 which introduces the necessary governance and charging arrangements into the Retail Energy Code to facilitate standing charge reconciliation between suppliers (Phase 1). In this case, we consider that by introducing a reconciliation mechanism, we should protect current and future supplier stability, market diversity and therefore competition is maintained by providing greater certainty that existing and future specialist suppliers can recover efficient costs. The reconciliation mechanism does add cost and complexity to the market and adds a collateral risk associated with suppliers going out of business. Implementing levelisation without reconciliation could distort market competition and undermine the PPM market.

[17] Ofgem (2023), Changes to prepayment meter standing charges and other debt costs. https://www.ofgem.gov.uk/cy/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs

1.15 This decision does not include the implementation detail, including in the cap models, for SC and DD debt-related costs levelisation and reconciliation. The decision to implement this in the cap models, and the detailed design of a unit rate reconciliation mechanism, is dependent on further industry work and the conclusions from the Operating Costs Review and our forthcoming work on debt and affordability in the energy market, which cannot be delivered for April 2024. We will consult on the levelisation of SC and DD debt-related costs before reaching a final decision. We will also review the operation and impact of PPM and DD standing charge levelisation before the end of the first year of implementation. Subject to the consultation and review, we will implement Phase 2 (PPM and DD standing levelisation and SC and DD debt-related costs levelisation) from April 2025, including a new methodology for Fixed Term Contracts (FTCs). Potential mitigants to reduce the risk premium for FTCs include setting the levelisation rates at a point in time or setting the rates over a 12-month period. These mitigants may apply to levelisation of both PPM and DD standing charge and SC and DD debt-related costs. We expect stakeholders to be consulted on reconciliation associated with SC and DD debt-related costs levelisation through the enabling code modification process in due course.

1.16 This document is structured as follows:

- Chapter 2 discusses the case for change and our aims for levelisation
- Chapter 3 sets out our decision to proceed with Phase 1 levelisation, providing stakeholder feedback on the options presented in our statutory consultation
- Chapter 4 sets out our approach to applying levelisation to uncapped contracts
- Chapter 5 outlines our decision and associated considerations for the treatment of targeting specific groups, regional differences, and smart PPMs
- Chapter 6 provides further details of the levelisation reconciliation mechanism, including FTC considerations
- Chapter 7 sets out the interaction between levelisation and other workstreams and the plan for Phase 2
- Appendix 1 sets out the licence modifications to enable levelisation and reconciliation
- Appendix 2 sets out our Impact Assessment (IA) which we have updated following stakeholder feedback from our statutory consultation

- Appendix 3 provides a step-by-step description for the implementation of our proposals in the default tariff cap ('the cap') models
- Appendix 4 sets out changes to be made to the price cap modelling suite with the introduction of a new Annex 9 to calculate the levelisation allowance for each payment method, metering arrangement and region
- Appendix 5 sets out the additional updates made since the statutory consultation to Ofgem's consumer archetypes

Related publications

1.17 The main documents relating to the cap and levelisation are:

- Gas Act 1986: https://www.legislation.gov.uk/ukpga/1986/44/
- Electricity Act 1989: https://www.legislation.gov.uk/ukpga/1989/29/
- Domestic Gas and Electricity (Tariff Cap) Act 2018: https://www.legislation.gov.uk/ukpga/2018/21
- 2018 decision on the cap methodology ('2018 decision'): https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview
- Energy Prices Act 2022: https://www.legislation.gov.uk/ukpga/2022/44

1.18 The main documents relating to this consultation are:

- Levelisation of a payment method cost differentials: a call for evidence: https://www.ofgem.gov.uk/publications/levelisation-payment-method-cost-differentials-call-evidence
- Changes to prepayment meter standing charges and other debt costs: https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs
- Levelling the cost of standing charges on prepayment meters: https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters
- Price cap – Call for Input on the allowance for debt-related costs: https://www.ofgem.gov.uk/publications/price-cap-call-input-allowance-debt-related-costs

- Price cap – Call for Input on the Operating Cost Allowances Review: https://www.ofgem.gov.uk/publications/price-cap-call-input-operating-cost-allowances-review
- Allowance for additional support credit bad debt costs: https://www.ofgem.gov.uk/publications/allowance-additional-support-credit-bad-debt-costs
- Standing Charges - Call for Input: https://www.ofgem.gov.uk/publications/standing-charges-call-input
- Authority decision on REC modification proposal R0147 - Prepayment Levelisation: https://www.ofgem.gov.uk/publications/authority-decision-rec-modification-proposal-r0147-prepayment-levelisation
- Ofgem energy consumer architypes update 2023: https://www.ofgem.gov.uk/energy-policy-and-regulation/measuring-impact-our-policy-decisions

Decision making stages

1.19 This decision is the final stage in our consultation process defining our levelisation policy for Phase 1. It provides the licence condition changes and sets out the implementation detail for Phase 1 levelisation, including price cap model updates. It does not provide the final decision to proceed with, or the implementation detail for levelising SC and DD debt-related costs. We will consult on this for April 2025, which include the required price cap model changes for SC and DD debt-related cost levelisation if we decide to proceed.

Table 2: Consultation Phases

Stages 1 - 3 (Complete)	**Stage 4 (Current)**	**Stage 5**	**Stage 6**	**Stage 7**
Call for Evidence Policy Consultation Statutory Consultation	Decision on Phase 1	Phase 1 Review & Updates, Phase 2 Consultation	Completion of Phase 1 Review & Updates, Phase 2 Consultation	Phase 2 implementation (pending Review & Consultation)
April 2023 - November 2023	February 2024	Summer/ Autumn 2024	Winter 2024	April 2025

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this document. We would also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders Ofgem email address.

2. Case for change and levelisation aims

Chapter summary

We provide a recap of the context provided in our statutory consultation, including an overview of our consumer objectives and framework and payment method differentials under the price cap as well as stakeholder feedback. We also set out our decision on the case for the introduction of levelisation and our policy aims for the levelisation process.

Introduction and recap of statutory consultation

Ofgem's consumer objectives and framework

2.1 When making decisions under the price cap, Ofgem must exercise its functions under the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act'),[18] with a view to protecting existing and future domestic customers who pay standard variable and default rates, Ofgem must also 'have regard to' the five matters under that Act. When we exercise other powers, such as approving code modifications, we must also act to further the principal objective set out in the Electricity Act 1989 and Gas Act 1986, which is to protect the interests of all existing and future energy consumers, including having regard to the interests of low income and vulnerable consumers.[19] One of the ways Ofgem assesses those various statutory factors is through our Consumer Interests Framework[20] and identifies which factors most closely apply to the decision and may need to be traded off against each other. For levelisation, we consider the 'Fair Prices' factor of the framework to be most appropriate.

2.2 As required under section 3B of Electricity Act 1989 and section 4AB of the Gas Act 1986, we have had regard to the guidance on Social and Environmental matters by the Secretary of the State to Ofgem.[21] Among other things, we have assessed these matters including what we consider to be key aspects of that guidance relevant to our decision, namely security of supply, smart metering, innovation, and

[18] Domestic Gas and Electricity (Tariff Cap) Act 2018. https://www.legislation.gov.uk/ukpga/2018/21/contents
[19] For more information on Ofgem's vulnerability duties, see https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/consumer_vulnerability_strategy_2025.pdf
[20] Ofgem (2023), Forward Work Programme, pages 7-8. https://www.ofgem.gov.uk/publications/202324-forward-work-programme
[21] See: https://www.ofgem.gov.uk/sites/default/files/docs/2007/05/file37517_2.pdf

vulnerability traits.[22]

2.3 To effect levelisation and reconciliation, we are using a combination of our statutory powers and have assessed both aspects of this policy together, against the various objectives and duties. There are references to these powers and duties throughout this decision and its appendices. Our statutory powers are broad and empower us to make, sometimes very deep, interventions to protect energy consumer interests.

Historical payment method differences payment methods

2.4 In our policy consultation,[23] we provided detail on the mechanics of the price cap and highlighted payment method differentials over time. We also outlined the principles on which the cap is based and noted that we have made some updates to the cap on a non-cost-reflective basis, where this was judged to be in customers' interests.[24]

2.5 In our subsequent statutory consultation,[25] we set out the background for payment differences between payment methods and the principle of cost-reflectivity, both before the introduction of the cap and during the cap. Additionally, we outlined the drivers for the different costs between payment methods and the difference in average values at nil and typical consumption levels.

The case for change

Recap of statutory consultation case for change

2.6 Within our statutory consultation, we provided a recap of our case for change as set out within our policy consultation. Within this, we noted research conducted in December 2022 (Wave 3) that demonstrated higher financial vulnerability among PPM customers in particular.[26] We also outlined the primary reason customers choose

[22] See paragraphs A2.100, Chapter 5, A2.65.
[23] Ofgem (2023), Levelling the cost of standing charges on prepayment meters. https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters
[24] Ofgem (2018), Default tariff cap: decision, Appendix 1 – para 1.5. https://www.ofgem.gov.uk/publications/default-tariff-cap-decision-overview. See also, Appendix 8 – para 3.48 of the same decision. A further example is our August 2020 decision on protecting energy consumers with prepayment meters, where we decided to maintain the tariff differential on the grounds that it would protect PPM consumers (which we considered a particularly vulnerable group): https://www.ofgem.gov.uk/publications/decision-protecting-energy-consumers-prepayment-meters.
[25] Ofgem (2023), Changes to prepayment meter standing charges and other debt costs. https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs
[26] Ofgem (2023), Consumer Impacts of Market Conditions survey- Wave 3 (Nov/Dec 2022). https://www.ofgem.gov.uk/publications/consumer-impacts-market-conditions-survey-wave-3-novdec-2022

their payment methods, noting that not all customers are able to actively choose. This supported our case for change for Phase 1 levelisation.

2.7 Our statutory consultation also outlined an update to the case for change, reflective of the stakeholder feedback from the policy consultation in addition to further research conducted in July 2023 (Wave 4).[27] The research outlined increased affordability issues among SC customers relative to DD customers, and a doubling in the proportion of SC customers falling behind in their energy bills since the previous consumer research published in December 2022. These findings combined with higher debt-related costs on average for SC customers, have led to further affordability issues for SC customers, and could result in a higher risk of customers incurring further debt, including bad debt.

2.8 The statutory consultation outlined the principle of cost-reflectivity and the positive and negative impacts this approach has on customers under the price cap. We subsequently provided an updated case for change, detailing some of the adverse consequences of PPM customers paying a standing charge premium, noting the heightened vulnerability of this cohort and its unintended consequences (such as rationing and self-disconnection) and that many PPM customers do not actively choose this payment method. Additionally, the consultation set out a case for change for levelling SC and DD debt-related costs, with the view that this would avoid increased costs for SC customers who are struggling to pay, as well as benefit customers as a whole due to lower levels of debt (including bad debt) in the market. The overall case for change was supported by the findings from our updated IA of the levelisation proposal, which assessed the impact on consumers (including vulnerable consumers) and suppliers, showing an overall positive benefits case for consumers.

Stakeholder feedback and Ofgem response

2.9 Respondents to the statutory consultation were generally supportive of our updated case for change, with support primarily focused on the proposed levelisation Phase 1, and general positive support for Phase 2.

[27] Ofgem (2023), Household Consumer Impacts of Market Conditions Survey- Wave 4. https://www.ofgem.gov.uk/publications/consumer-impacts-market-conditions-survey-wave-4-july-2023

2.10 Five suppliers, three consumer groups and one other respondent agreed with the case for change. Responses typically agreed with the evidence presented of the inherent risks to PPM customers from higher standing charges and the increasing debt issue and its disproportional impact on SC customers. Respondents generally agreed with the conclusions set out as to the rationale for supporting both PPM customers (Phase 1) and SC customers (Phase 2), noting the increased vulnerability and inherent risks to both PPM and SC customers, as compared with DD customers.

2.11 Three suppliers and one other respondent said that a social tariff would be a more effective way to address the affordability challenge, which would allow for a better consideration of fairness and the inherent risks to particular consumer groups. These respondents noted that the government would be best suited within the legal framework to operate and fund this challenge. As part of the considerations for levelisation, we have had regards to our various statutory objectives as well as the Consumer Insight Framework (as detailed in paragraphs 2.1 to 2.3).

2.12 Two consumer groups agreed with the case for change, but questioned whether the proposals went far enough and argued for full levelisation of SC for both standing charges and unit rates, citing evidence to show that high levels of vulnerability exist among SC customers. These respondents also noted that SC customers typically had low awareness of the price differential between SC and DD, noting that price differentials are an ineffective method of incentivising payment method choice. We recognise the low awareness of the price differential between payment methods, particularly for customers who pay by SC. However, we are of the view that suppliers should do more to improve customer awareness of the price differences between payment methods when selecting tariffs. We maintain our position not to levelise further as this would result in more increased costs to DD customers and, potentially, a net increase in costs to PPM customers which would lead to less overall positive outcomes as determined by our IA.

2.13 One respondent agreed with the general case for change, noting that if cost-reflective charging is shown to be delivering negative outcomes for some, a policy decision should be made to protect those customers from the outcomes, through adjustment in the tariffs. The respondent however disagreed with the case for change for levelisation of SC and DD debt-related costs and suggested, instead, a minimum differential of £100 as a starting point for consideration. The supplier also said that Ofgem should explicitly recognise the need to balance considerations of fairness and efficiency. We discuss the minimum differential proposal further in paragraph 3.19. As part of the considerations for levelisation, we have had regards to our various statutory objectives as well as the Consumer Insight Framework, in particular 'Fair Prices', which looks to ensure costs are efficient and fairly distributed. We will consider the detailed design of the debt-related costs levelisation further as part of the upcoming consultation for SC and DD debt-related costs levelisation.

2.14 Another supplier agreed with the case for change but said that the benefits to SC customers of debt-related costs levelisation is small and not sufficient to warrant a case for change. They also said that Ofgem did not sufficiently consider the detrimental impact to customers on DD within its case for change, where the largest number of vulnerable customers sit. We discuss the levelisation approach and impacts on DD customers further in Chapter 3.

2.15 Only three respondents (two suppliers and one individual) disagreed with the case for change. Of the suppliers that disagreed with it, the first outlined that they fundamentally disagreed with levelisation due to risks that it would materially harm competition and supplier financeability, particularly through the need for a risk premium on FTCs. The supplier also said that Ofgem failed to properly assess the impact of its proposals against its legislative obligations, including its principal objective. We cover the issue of impacts on competition, supplier financeability and risk premiums for fixed tariffs further in Chapters 4 and 6.

2.16 The second supplier that disagreed with our case for change outlined several points of opposition, including that Ofgem may be acting outside of its powers set under the Act on the basis that the levelisation policy moves away from consumer facing cost-reflectivity. As part of the considerations for levelisation, we have had regards to our various statutory objectives as well as the Consumer Insight Framework (as detailed in paragraphs 2.1 to 2.3). We discuss our views and basis for moving away from cost-reflectivity in the updated case for change section below.

2.17 The respondent also raised additional areas of disagreement, suggesting that Ofgem's Operating Costs Review[28] should conclude first before introducing levelisation, to reflect more accurate cost differentials. They also disagreed with the case for change due to the increase in bills for the majority of fuel poor customers on

[28] Ofgem (2023), Energy price cap operating cost review benchmarking working paper. https://www.ofgem.gov.uk/publications/energy-price-cap-operating-cost-review-benchmarking-working-paper

DD and considered our proposals reduce the incentive for installation of smart PPM. Finally, the supplier outlined several concerns with the approach and findings of the IA. We discuss this feedback in more detail in Chapter 3.

2.18 The individual respondent that disagreed with our case for change noted that levelisation could be beneficial but disagreed with the case for not fully levelising SC to DD/PPM by removing the SC premium from April 2024, noting that SC represents some of the most vulnerable customers. We recognise the levels of vulnerability within the SC customer base, and this feeds into our case for change for debt-related levelisation between SC and DD. We maintain our position not to levelise further for the reasons set out in our response to paragraph 2.12. We will consider the detailed design of SC and DD debt-related costs levelisation in the upcoming consultation.

Updated case for change following statutory consultation feedback

2.19 Following feedback to the statutory consultation and further analysis, we consider there remains a case that PPM customers should not pay a premium. The findings from our IA conclude that a reduction in the PPM standing charge, as per our proposal, would result in an overall net benefit to consumers. The benefits are made up of reductions in consumer debt, bad debt, working capital and self-disconnections. The bad debt and working capital reductions outweigh the annual operational costs of the policy. Our IA also assessed the impacts on suppliers, including competition, switching and innovation, and showed these to have minimal impact. These impacts were also factored into our assessment regarding benefits to consumers. We also found significant distributional benefits associated with Phase 1. Using Ofgem's consumer archetypes, we found that the net income-weighted distributional impact would be approximately £112m from Phase 1. On aggregate, both phases of levelisation result in more money given to low-income customers through bill reduction than is taken away through bill increases. More information on our approach to levelisation is set out in paragraph 3.23-3.30, while Appendix 2 sets out the IA conclusions.

2.20 PPM customers typically pay higher standing charges when compared to DD customers. An above average proportion of PPM customers exhibit low income, disabled and chronically ill vulnerabilities, and many are not able to choose their payment method, or switch to another method. This in turn, could increase the level of self-disconnections which would have significant negative impacts on health and wellbeing. This is supported by recent research by Citizens' Advice[29] which shows that more than two million people with PPMs across Great Britain will disconnect from their supply this winter because they cannot afford to top-up their PPM meter. As discussed in the above paragraph, the IA shows a small benefit to PPM customers (particularly where vulnerable) through a reduction in self-disconnection or rationing.

2.21 To date, we have considered cost-reflectivity on a per payment method and region basis, albeit we have in some decisions moved away from pure cost-reflectivity where we consider it to be in consumers interest. As evidenced in this updated case for change, the consumer facing cost-reflective approach to payment type cost assignment has led to consumer harm with higher costs being placed on those least able to pay or choose their payment method. This results in further customer debt and therefore we consider it in consumers' interests to change our approach. Further, levelisation reduces potentially unfair cost assignments where consumers are made responsible for the higher average cost to serve of their cohort (as an unavoidable consequence of tariffs for cohorts rather than fully individualised pricing) when they themselves may not be contributing to the higher costs.

2.22 The payment type differential in the price cap is broadly reflective of the price differential for a notional supplier but it may differ from individual suppliers' differentials. To the extent that we have historically made decisions against cost-reflectivity, levelisation will not be a net-detriment to suppliers with higher a proportion of PPM customers and the existing efficiency incentive to reduce the differential will remain. The magnitude and contributing factors to the price differential will be considered further in the upcoming Operating Costs Review. Levelisation will not impact the supplier facing cost-reflectivity as the reconciliation mechanism will effectively levelise the costs to serve customers on different payment methods. Further detail on the reconciliation process is covered in Chapter 6. In making this decision to move away from the current approach of cost-reflectivity, towards levelisation, for this element of the price cap, we are also considering the analysis showing that it results in a net advantage to customers as a whole. It

[29] Citizens Advice (2024), More than two million people will be cut off from their gas and electricity this winter because they can't afford to top up, Citizens Advice warns. https://www.citizensadvice.org.uk/about-us/about-us1/media/press-releases/more-than-two-million-people-will-be-cut-off-from-their-gas-and-electricity-this-winter-because-they-cant-afford-to-top-up-citizens-advice-warns

advantages the market through reduced debt (including bad debt) and working capital costs, which is also to the overall benefit of consumers.

2.23 In addition to the case for change for Phase 1 levelisation, we maintain that there is a case for levelising SC and DD debt-related costs and not allocating any of the bad debt to PPM customers under Phase 2 levelisation. This would avoid increased costs for SC customers who are struggling to pay and benefit customers as a whole due to lower levels of debt in the market, particularly for SC and PPM customers. This case for change is backed by our findings within our IA, showing levelisation of debt-related costs between SC and DD would result in a decrease in total overall debt (including bad debt) with additional benefit to suppliers through reduced working capital costs. The IA also assessed the impact of levelisation of debt on a variety of vulnerable consumers and metrics, showing distributional benefits, particularly to vulnerable SC consumers. More information on the IA is set out within Appendix 2.

2.24 Further to the IA findings showing a positive benefits case for levelisation of debt-related costs, a case for change is also supported by stakeholder feedback from the statutory consultation and consumer research, noting the increased vulnerability of SC customers relative to DD customers.[30] The consumer research noted that higher relative prices on SC customers heightens the risk of SC customers incurring further debt, which in turn increases the total debt in the market and results in greater debt-related costs to be met by customers as a whole. In addition, DD customers can also generate bad debt and there are real advantages to all customers for it to be shared more equally by DD and SC customers. We will consider further any decision in relation to SC and DD debt-related costs levelisation in the upcoming consultation.

Policy considerations and guiding aims

Recap of statutory consultation position

2.25 In the statutory consultation, we set out guiding aims for the approach to levelisation, based on the case for change. These were separated into the following primary and secondary aims:

[30] Ofgem (2023), Household Consumer Impacts of Market Conditions Survey- Wave 4. https://www.ofgem.gov.uk/publications/consumer-impacts-market-conditions-survey-wave-4-july-2023

Primary aims

- Customers that pay by PPM should not pay a premium (applies to Phase 1 levelisation)
- All customers that have the ability to build debt should contribute equally to debt-related costs (applies to Phase 2 levelisation)

Secondary aims

- The SC premium should be reduced but maintained to incentivise efficient payment methods (applies to Phase 2 levelisation)
- Levelisation should be enduring and responsive to policy changes (applies to Phase 1 and 2 levelisation)
- There should be limited or no gap in support for PPM customers following EPG removal (applies to Phase 1 levelisation)
- The solution should be proportionate (applies to Phase 1 and 2 levelisation)

Stakeholder feedback and Ofgem response

2.26 Respondents to the statutory consultation were generally supportive of our levelisation policy aims, however several respondents agreed or disagreed with individual aims or had different views.

2.27 Eight suppliers, three consumer groups, one individual and one other respondent agreed with at least one or more of the levelisation aims. Only one consumer group did not specifically agree with any of the guiding levelisation aims. The levelisation aims and responses are discussed in more detail below.

Customers that pay by PPM should not pay a premium (applies to Phase 1 levelisation)

2.28 Three consumer groups and six suppliers agreed with the aim that those customers who pay by PPM should not pay a premium.

2.29 One supplier agreed with this aim but noted that this should also apply to unit rates in addition to the standing charge, to ensure that PPM customers do not pay a unit rate premium. We maintain our position not to levelise PPM and DD unit rates as this will likely result in increasing costs to PPM customers where there is the highest proportion of customers that are low income, disabled and chronically sick, or have other vulnerabilities. We will keep this decision under review, however, and should we consider levelisation of PPM unit rates to be in consumers' interest in the future, we would consult accordingly.

2.30 Another two suppliers agreed with the general aim of support for PPM customers, particularly for those that are vulnerable, but noted this could be improved with a differentiation between traditional and smart PPM. We have decided not to separate out smart from traditional PPMs. We address our rationale for this in Chapter 5.

All customers that have the ability to build debt should contribute equally to debt-related costs (applies to Phase 2 levelisation)

2.31 One consumer group and three suppliers agreed with the aim that all customers that have the ability to build debt, should contribute equally to debt-related costs, noting that placing an increasing debt burden on SC customers increases the risk of non-payment.

2.32 Two suppliers disagreed with this aim, noting that DD and SC customers do not have an equal ability to build up debt, with SC customers more likely to. These respondents suggested that the aim should be amended to allow an element of cost-reflectivity between SC and DD, to provide a greater incentive for customers to switch from SC to DD. One supplier noted that this may not be compatible with the secondary aim of reducing the SC premium. We agree that debt accumulation is not even across customers of different payment methods and within these, but do not agree that this fact undermines our stated aim as debt is only one component of the price differential between SC and DD, allowing for a (reduced) difference to remain between SC and DD. We maintain our view that there is a case for levelising debt-related costs between payment methods and will further consider the Phase 2 levelisation in the upcoming consultation.

2.33 Another supplier disagreed with the aim, noting that they did not agree with Ofgem's rationale of having an aim focused on customers sharing debt where they have the ability to build debt, arguing instead for fairness to be balanced against efficiency. They noted that PPM customers could build debt through non-repayment of the Additional Support Credit (ASC) or have debt which they accrued under other methods before switching to PPM. Whilst we agree that PPM customers can build debt under some circumstances, such as moving from other payment methods or through the ASC, typically these customers do not incur additional material debt once on PPM, while the ASC Allowance is time-limited. We have considered the levelisation aims against our consumer objectives and frameworks, as well as the cost benefit analysis set out within the IA.

2.34 Another supplier said that the aim would limit Ofgem's ability to deliver the overall objective of levelisation or allow for a competitive market for FTCs. We discuss the considerations for FTC further in Chapters 4 and 6.

2.35 One other respondent noted concerns with this aim, highlighting the risk of increasing costs to vulnerable consumers on more efficient payment methods, and potentially reduce the incentives on customers to switch from SC to DD. We recognise the risk, however we expect there to remain sufficient incentives for customers to choose DD/PPM over SC if appropriate for them to do so, while acknowledging that different customers will have different reasons for choosing payment methods. This aim also only corresponds to the debt-related cost aspect of the consumer bill, and a difference between payment methods will remain.

2.36 One individual disagreed with charging debt onto customers who were not in debt, noting this was not fair and raised the risk of increased debt overall. The respondent also noted the risks of high standing charges, which were unavoidable costs. We note that at present SC customers who are not in debt pay a significant share of debt-related costs driven by other SC customers. Our aim is to achieve a more even distribution of debt-related costs across customers. Considerations for the future of standing charges are being addressed through the Standing Charges Review and how bad debt is treated through the Additional Debt Costs review.[31]

The SC premium should be reduced but maintained to incentivise efficient payment methods (applies to Phase 2 levelisation)

2.37 Two consumer groups and five suppliers agreed with the aim that the SC premium should be reduced but maintained to incentivise efficient payment methods, however they noted that a strong incentive to move from SC to PPM/DD should remain, while avoiding excessive burden on SC customers.

2.38 Two consumer groups disagreed with the aim, arguing that there should be no remaining SC premium. One respondent pointed to Ofgem's research showing that

[31] Ofgem, 2023, Energy price cap: additional debt costs review consultation. https://www.ofgem.gov.uk/publications/energy-price-cap-additional-debt-costs-review-consultation

only 24% of customers on SC are aware of the price differential, noting that retaining a cost difference between SC and DD will not act as a strong incentive to switch. This respondent also noted the approach by Ofwat in the water sector for different payment methods to ensure equal payment by customers. The other respondent pointed to the high degree of vulnerability among SC customers and noted that fairness should be a key driver under Ofgem’s Consumer Interest Framework. We maintain our position not to levelise further for the reasons set out in our response to paragraph 2.12.

2.39 One individual disagreed that SC customers should continue to pay more than other payment methods, noting that the cost-to serve was the same than other payment methods. Typically, suppliers incur additional costs to serve SC customers, due to higher working capital costs, bad debt and admin costs. This aim will focus on reducing the bad debt costs to SC customers.

Levelisation should be enduring and responsive to policy changes (applies to Phase 1 and 2 levelisation)

2.40 Three consumer groups, five suppliers and one other respondent agreed with the aim that levelisation should be enduring and responsive to policy changes, noting the importance of an enduring process alongside the price cap, which is adaptable to future policy change.

2.41 One supplier disagreed with the desire for responsiveness to policy changes, noting that responsiveness and adaptability could not be introduced without adding to risk premiums from uncertainty, particularly on fixed term markets. Whilst we recognise that flexibility can led to uncertainty, we are of the view that this is necessary to allow for a process that is complementary to the potential outcomes of future reviews and policy. We outline our views on fixed term markets in more detail in Chapters 4 and 6.

2.42 Another supplier disagreed with the aim for an enduring levelisation process, noting that a sunset clause may be necessary, in the absence of further changes they have suggested to align the approach with the roll-out of smart PPM. We have made some changes based on feedback and have decided to review Phase 1 before the end of the first year. Alongside the review of whether PPM and DD standing charges levelisation should remain, we will consult on the levelisation of SC and DD debt-related costs, considering a new methodology for FTCs, for April 2025 implementation. This is explained in Chapter 1, paragraphs 1.13 and 1.15 and in Chapter 3, paragraphs 3.34 - 3.36. Lastly, we outline our views on smart PPM in more detail in Chapter 5.

There should be limited or no gap in support for PPM customers following EPG removal (applies to Phase 1 levelisation)

2.43 Three consumer groups and five suppliers agreed with the aim that there should be limited or no gap in support for PPM customers following EPG removal, noting the importance of continued support for PPM customers, following the end of EPG support in March 2024.

2.44 One supplier disagreed with the aim, noting that the design of the process could attract increased risk of challenge if implemented in April 2024 to prevent a gap in EPG support. We maintain our position that we consider we can deliver an appropriate design in this timeframe.

The solution should be proportionate (applies to Phase 1 and 2 levelisation)

2.45 Three consumer groups and seven suppliers agreed with the aim that the solution should be proportionate, noting that there was a need to be proportionate to the specific market issue that needs intervention.

2.46 However, three suppliers noted that, while they agreed with the aim, they did not consider the current levelisation approach or associated reconciliation process to be proportionate. One supplier noted that proportionality needs to be more than minimising costs, while another supplier said that using estimated consumption for the reconciliation process would not be sufficiently accurate. Our assessment of proportionality extends beyond minimising costs and is based on both feedback and findings from our IA and considers wider potential interventions that could deliver the desired outcomes while minimising costs/risks of unintended consequences. We discuss our approach and decisions relating to the reconciliation process further in Chapter 6.

2.47 Another supplier and other respondent body agreed with the aim but noted there was a risk that PPM could become cheaper than DD, which could result in incentives to switch away from DD. This may not suit individual consumers and could increase costs to some customers if there are fewer DD customers to share the costs of levelisation. We consider this risk to be low, due to levelisation of standing charges for both payment methods will typically keep costs between DD and PPM aligned. As outlined in our consumer research,[32] only a small number of customers noted the reason for payment method choice was due to being cheaper, with DD customers primarily claiming that it was a more convenient payment method than other payment methods.

Additional aims

2.48 One supplier suggested an additional aim to ensure that suppliers can recover their reasonably incurred costs from customers on all payment methods through the levelisation reconciliation mechanism. Another supplier outlined the importance of the reconciliation process in enabling levelisation, noting this should be added as a key aim. While we maintain our proposal to support levelisation with a supplier reconciliation mechanism and consider that suppliers should be able to recover efficient costs relating to levelisation, we do not consider a specific aim is necessary.

2.49 One supplier and one other respondent suggested that the aims should be updated to reflect the trade-off between cost-reflectivity and fairness. The respondent suggested that this should be technology specific (ie smart PPM) and ensure promotion of competition. As part of the considerations for levelisation, we have had regards to the Consumer Insight Framework and our other statutory objectives and impacts on consumers as a whole. However, we do not consider these to be aims. We discuss the levelisation approach options further in Chapter 3, while further detail on our approach to Smart PPM is set out in Chapter 5.

Updates to our aims following analysis and statutory consultation feedback – Phase 1 levelisation

2.50 Following consideration of our policy aims against the case for change, responses to the statutory consultation and our IA, we have decided to retain the existing primary and secondary aims set out within the statutory consultation, with minor amendments. We have separated these out into the aims that will apply to Phase 1 levelisation and have set out further detail and explanation for each of these aims, to provide additional clarity.

[32] Ofgem (2023), Consumer Impacts of Market Conditions survey- Wave 3 (Nov/Dec 2022), page 26. https://www.ofgem.gov.uk/publications/consumer-impacts-market-conditions-survey-wave-3-novdec-2022

Primary aims

- **Customers that pay by PPM should not pay a premium.** This aim would ensure PPM customers should not typically pay a premium compared to other payment methods. In practice, this would mean removing the current premium on the standing charge. This would help to realise the benefits case outlined in our IA, while seeking to mitigate the unintended harms associated with higher standing charges for PPM customers.

Secondary aims

- **Levelisation should be responsive to policy changes and be in the best interest of consumers.** This aim looks to ensure that the levelisation process is adaptable and responsive to any upcoming policy changes, while looking to be in the best interest of consumers. This would seek to achieve the benefits outlined within our IA, and to mitigate the unintended impacts outlined in the case for change, whilst ensuring this remains in the best interest of consumers and is compatible with interlinking reviews being undertaken by Ofgem. We plan to operate Phase 1 from April 2024 and review its operation and impact to ensure our approach continues to be in the best interests of consumers overall. Subject to review and/or consultation and final decision, Phase 2 will coincide with the anticipated outcome of the Operating Costs Review and our forthcoming reviews of debt and affordability in the energy market, to ensure that it will be based on the best view of efficient cost at the time.
- **There should be no gap in support for PPM customers following EPG removal**. This aim works alongside the PPM primary aim, by introducing the levelisation process to align with the removal of the EPG scheme, currently funded by government, and scheduled increase to PPM standing charges through the ASC. This would seek to remove the risk of a PPM premium.
- **The solution should be proportionate**. This aim looks to ensure that the levelisation approach is proportionate, by considering our statutory objectives including our frameworks and the cost and societal impact measures used within the IA. Our levelisation approach seeks to use these measures to determine a proportionate solution, which provides overall benefit to customers and mitigates the risk of unintended consequences set out within the case for change. This aim

also seeks to minimise the administration costs of a solution with intervention to the minimum level required to achieve the desired outcome.

2.51 In Chapter 3, we assess our approach to levelisation against these aims.

Updates to our aims for following analysis and statutory consultation feedback – Phase 2 levelisation

Primary aims

- **All customers that have the ability to build debt should contribute equally to debt-related costs.** This aim would seek to spread debt-related cost allowances between DD and SC customers; it would not spread it across PPM customers who do not normally incur material debt. This would help to distribute the impact of debt more evenly across customers, reducing the impact of higher costs to vulnerable SC customers, which leads to further debt. This aim would also seek to achieve the benefits, including reducing the levels of overall debt outlined in our IA.

Secondary aims

- **The SC premium should be reduced but maintained to incentivise efficient payment methods.** This aim would work in conjunction with the primary debt aim above, to reduce the differential between SC and PPM/DD. This would retain a cost incentive for customers to choose other more efficient payment methods, while retaining an element of cost-reflectivity and provide suppliers with working capital, needed for financeability.
- **Levelisation should be responsive to policy changes and be in the best interest of consumers.** As outlined in Phase 1 above.
- **The solution should be proportionate**. As outlined in Phase 1 above.

3. Levelisation approach

Chapter summary

In Chapter 3, we balance the many competing impacts of levelisation and consider stakeholder feedback to come to our decision on the approach to levelisation.

Introduction and recap of the proposal from the statutory consultation

3.1 In our statutory consultation, we presented our minded-to proposal to:

- Levelise PPM and DD standing charges (Phase 1), from April 2024
- Levelise DD and SC debt-related costs, not allocating any of the debt-related costs to PPM customers, (Phase 2), no earlier than October 2024
- Maintain regional tariff differentials
- Levelise all contracts, capped and uncapped, without targeting any particular cohort but excluding any FTCs agreed prior to the decision date from reconciliation
- Support our levelisation approach with a supplier reconciliation mechanism and appoint an operator to develop the system at risk, pending final decision

3.2 We also presented two other options: do nothing and only levelise PPM standing charges with DD.

3.3 As Phase 2 levelisation requires significant further design and build, which will determine the implementation detail, we have decided not to take a final decision on whether to proceed with it at this stage. In this Chapter, we focus primarily on the approach to Phase 1 and discuss the timelines for Phase 2 review and/or consultation and decision.

Stakeholder feedback and Ofgem response

Intent to levelise

3.4 Six suppliers and two consumer groups broadly agreed with our intent to levelise. Respondents cited agreement with our principles, the relative vulnerabilities of customers using different payment methods and potential unfairness in current allocations as key reasons for their agreement. Those that commented were supportive of removing the ASC levelisation step from the calculation.[33]

3.5 Two suppliers commented that their support for levelisation is dependent on it being supported by reconciliation. Another stated that they oppose cross subsidies between payments but that if cross subsidies are to exist, they should be reconciled, as our policy intends.

3.6 Individuals expressed mixed views on levelisation, with some supportive and others thinking customers should not be made to subsidise each other, across both cost to serve differences and even the existence of a bad debt charge. Multiple individuals commented on the magnitude and role of standing charges in general, with some suggesting we explore other tariff structures such as rising block tariffs. We note that the price cap is not purely cost-reflective and there are aspects of cross-subsidisation within, where (as is inherent in economic regulation) we consider these to be in consumers' interests. We are considering broader issues relating to standing charges through the Standing Charges Review.

3.7 Two consumers groups and one supplier thought that we should levelise further. We discuss our rationale for not doing so in 2.12.

3.8 Only two respondents disagreed with our intent to levelise and reconcile. One thought levelisation would materially harm competition, stating that we have not properly considered the impact from the increased risk premium that would need to be applied to fixed term tariffs. The second stakeholder that disagreed with our broad approach to levelisation and reconciliation raised a number of objections, some of which cut across both phases of levelisation (addressed below), and some are phase specific (addressed in the relevant sections).

3.9 One of these respondents felt that we had not properly considered the harm to vulnerable customers in our IA. We provide an updated assessment in our IA in Appendix 2 on the impact to vulnerable customers due to the increased costs that they face as a result of our proposals. We recognise that there are a higher total number of low-income customers that pay by DD than any other payment method, and that this policy directly and negatively financially impacts them. In our IA, we

[33] The original calculation process proposed in our policy consultation involved separate levelisation of ASC between all customers prior to standing charge levelisation. We proposed removing this step in our statutory consultation to simplify the process and deliver greater consumer benefit.

quantify the expected increase in costs among DD customers as a result. The magnitude of the cost, on a per DD customer basis, is lower than the benefit received on a per PPM customer basis, where there is a higher proportion of low-income, chronically ill, and disabled vulnerable customers. On aggregate, both phases of levelisation result in more money being given to low-income customers through bill reduction than is taken away through bill increases. The difference is paid for by less vulnerable customers for whom the price difference will have a much smaller impact. Balancing the harm to DD customers with benefits to PPM and SC customers and broader system benefits results in a net positive impact to customers as a whole, as discussed in our IA in Annex 2. Further, as discussed in the policy consultation, some currently DD customers will be able to achieve a saving by switching to PPM. We do however note that PPM is not an appropriate payment method for all customers, particularly some vulnerable customers may be less able to consider alternatives like this (eg due to time constraints, housing tenure, etc). We expect the number of customers that switch to be very small.

3.10 The same respondent stated that suppliers are already reducing their PPM standing charges, and therefore a reconciliation mechanism is not required to support financeability as current PPM reductions evidence suppliers' ability to absorb the cost of levelisation. They stated that the existence of a reconciliation mechanism would require suppliers to pass through higher costs. Firstly, suppliers are currently being compensated through the EPG to discount PPM standing charges, therefore it is not accurate to represent suppliers' current ability to levelise PPM/DD standing charges as evidence of their ability to do so without regulatory intervention. Secondly, we disagree that the policy will necessitate pass through of higher costs; suppliers can and should price below the price cap if they can. The revenue impact is net neutral across the industry and therefore the net savings against the price cap that can be offered should be maintained. To the extent that any non-cost-reflective decisions have been made in the cap calculation, they have been to reduce the PPM/DD differential. Levelisation with reconciliation results in no detriment to PPM suppliers against the existing cap and an efficiency incentive to keep PPM costs low is maintained.

3.11 Multiple suppliers commented that administration costs of levelisation should be considered in the Operating Costs Review. The Operating Costs Review will consider operating costs in the round, but our current expectation is that levelisation will not drive a higher operating cost allowance. We maintain our statutory consultation view that the annual operational costs of the scheme broadly align to the bad debt and working capital savings that suppliers would experience as a result of the scheme so do not intent to make an explicit allowance.

Phase 1 Feedback

3.12 Most respondents that supported our intent to levelise supported Phase 1 as a minimum although some concerns were raised.

3.13 Respondents warned of the risk that Phase 1 levelisation could incentivise consumers to move onto PPMs, increasing total industry costs and causing consumer harm from customers potentially choosing a payment method unsuitable for their needs. While we recognise the risk, the cohort that is likely to switch is small (evident in the low switching rates discussed in the IA) and switches should almost exclusively be to smart prepay. As stated in our open letter on the rollout of smart meters for Prepayment and Radio Teleswitch customers,[34] smart PPMs have a range of consumer benefits and looking forward, we expect to see a greater focus from suppliers in delivering smart over traditional PPM, as per their obligations. Therefore, we expect the impact on total industry costs to be small.

3.14 Multiple respondents commented that they would like to see Phase 1 delivered alongside updated Operating Cost and Debt-Related Cost benchmarks so that costs facing suppliers can more accurately be recovered through the price cap without the impact of consumer facing cost-reflectivity. We recognise an incremental benefit of delivering levelisation alongside these reviews, but it is not possible to accelerate the reviews such that we would be able to deliver all workstreams by April 2024. Conversely, a delay to levelisation would go against our aim of ensuring there is no or limited gap in support for PPM customers following the end of the EPG in March 2024. As levelisation is net revenue neutral for individual suppliers, there should be no material reduction in the accuracy of the costs that suppliers can recover following levelisation implementation and therefore no harm in implementation before the Operating Costs and Bad Debt Reviews. Even if there is an impact, it would not be sufficiently material to impact financeability overall. As discussed in paragraph 3.11, there is no detriment to PPM suppliers against the existing cap and

[34] Ofgem, 2024, Open letter on smart meter installations for prepayment and Radio Teleswitch customers, https://www.ofgem.gov.uk/publications/open-letter-smart-meter-installations-prepayment-and-radio-teleswitch-customers

a PPM efficiency incentive is maintained. We plan to proceed with Phase 1 levelisation for April 2024, noting that Phase 1 levelisation methodology will be updated to have regard to the updated baseline resulting from the Operating Costs and Debt-Related Costs Reviews, once complete.

3.15 One respondent was concerned that we are disincentivising smart PPM. We do not agree with this. Currently, the difference in the cost that suppliers can recover between smart and traditional PPMs is driven by the Smart Metering Net Cost Change (SMNCC) allowance. This introduces a negative adjustment to the PPM cap based on the average rollout profile of smart PPMs; it does not reflect a supplier's own rollout. If a supplier is ahead of this rollout profile, it can receive larger benefits than modelled in the price cap. Therefore, there is already an incentive for suppliers to roll out smart prepay meters to get ahead of the rollout curve. Following levelisation, suppliers will be able to recover the same total cost per PPM meter, therefore the current cost incentive remains. If we were to use different cost to serve benchmarks for smart and traditional PPM as suggested, this efficiency incentive would be removed.

3.16 The same respondent suggested that we address the perceived disincentive by treating smart PPM as DD, thereby increasing the costs to smart PPM consumers, and reducing the costs to traditional PPM consumers, as well as a sunset clause, reducing the number of eligible traditional PPM consumers over time to incentivise the transition from traditional to smart. Depending on how this is implemented, this proposed approach would result in either traditional PPMs becoming cheaper than smart, which would likely disincentivise the smart prepay rollout by reducing consumer interest, or reducing the amount that suppliers are able to recover for smart PPMs, potentially below cost to serve. We discuss this further in Chapter 5, paragraphs 5.15 - 5.23.

3.17 One respondent thought that the risk premium associated with levelisation was sufficient to materially harm competition. As a result of this feedback, we have carried out additional analysis and considered the impact on competition and increased costs to consumers in our IA. We conclude that the cost of Phase 1 levelisation is not so unpredictable as to require a material risk premium that would materially harm competition or result in an increase in cost to fixed term customers that would outweigh the benefits of Phase 1. We explain how we have reached this conclusion and set out our plans to further consider and mitigate these concerns in Chapters 4 and 6.

Phase 2 Feedback

3.18 Many respondents were also supportive of Phase 2 levelisation. There was only one respondent that supported Phase 1 but opposed Phase 2. They felt that reconciling based on estimated consumption was insufficient, and that using actuals was complex and costly making the policy disproportionate. Other suppliers agreed with the preference to reconcile using actual consumption. We will develop the details of unit rate reconciliation, including deciding whether it should be performed on an estimated or actuals basis, alongside the industry. This is discussed further in Chapter - Reconciliation mechanism.

3.19 Some suggested variations to our approach to Phase 2. Two suppliers thought we should maintain a larger differential between SC and DD to avoid incentivising a less efficient payment method, suggesting a differential of at least £100 per year. Our consumer research[35] shows that price is not a key driver for payment method choice, in fact the majority of customers are unaware that price varies between payment method, so a £100 differential is unlikely to create a materially more effective incentive than the c.£52 differential resulting from our policy.

3.20 One supplier requested an ex-post true up, through levelisation, for any past bad debt cost smearing as it believed that the cost-to-serve differential is greater than previously allowed. Another highlighted and provided data evidencing the debt carried by PPM customers and the need for a bad debt allowance in the PPM cap. The longer timeframe of Phase 2 levelisation enables us to deliver it alongside the Operating Costs Review and the Bad Debt Review, allowing us to reconcile against any updated baseline.

3.21 One respondent thought that the risk premium associated with levelisation was sufficient to materially harm competition. We recognise that the risk premium demanded by Phase 2 levelisation could be material. We commit to exploring options, that will be consulted on as part of SC and DD deb-related costs levelisation, to reducing the risk premium associated with Phase 2. These options are considered

[35] Ofgem, 2023, Page 43 Consumer impacts of market conditions survey - wave 4 (July 2023) | Ofgem

further in Chapter 6 - Levelisation reconciliation mechanism but could include the mitigations proposed by the stakeholder, including:

- Fixing the levelisation rate when the contract commences
- Calculating the levelisation rate for uncapped tariffs to take account of changes in future price cap periods

3.22 One respondent believed that there is a better approach to SC levelisation. They opposed levelisation of debt-related costs, stating that it is not an exogenous variable, rather something that suppliers can control, and levelising it represents a competitive distortion, baking in the principle that it is out of suppliers' control. They suggested that we instead address the SC differential through prioritisation of the Operating Costs Review to update cost to serve benchmarks (which they expect to result in a reduced differential). They believe that the debt data we collect overstates the payment differential and that a reformed approach would reduce the differential. The Operating Costs Review is under way and, while it may result in a reduced differential, we cannot predetermine this and would not look to influence the outcome to meet our levelisation policy aims.

Approach to levelisation

3.23 After consideration of feedback and further analysis, our decision is to proceed with the levelisation of PPM and DD standing charges (Phase 1) from April 2024, and this decision document contains the detailed approach, including the SLCs and proposed model changes required to implement this change. We are currently minded to also levelise debt-related costs between DD and SC customers in 2025 subject to further consultation. Phase 2 would incorporate PPM and DD levelisation and SC and DD debt-related costs levelisation. Our IA for Phase 1 and updated IA for Phase 2 (set out in Annex 2) provides evidence to support our minded to position regarding Phase 2 as it provides a benefit to consumers overall. Before the end of the first year, we will review the operation and impact of the levelisation of PPM and DD standing charges and consult on the levelisation of SC and DD debt-related costs (including implementation detail), including a new methodology for FTCs.

3.24 The table below sets out cap levels (with change against baseline provided in brackets) under our decision to proceed with Phase 1.

Table 3: Cap level impacts Phase 1 – Dual Fuel 12a

	DD illustrative cap levels	SC illustrative cap levels	PPM illustrative cap levels
Total Level	£1,690 (+£10)	£1,796 (£0)	£1,643 (-£52)
Yearly Standing Charge	£334 (+£10)	£369 (£0)	£334 (-£52)
Yearly Unit Rate	£1,356 (+£0)	£1,427 (£0)	£1,309 (£0)

3.25 Levelisation results in an increased cost to DD customers. Of all payment methods, DD has the highest proportion of customers of a pensionable age (31% of DD customers), 29% of DD customers have a long-term disability or illness and 41% have a household income of less than £30,000. A higher proportion of customers paying by PPM and SC have a long-term disability or illness (44% of PPM customers, and 33% of SC). Similarly, a higher proportion of PPM and SC customers have a low income (64% of PPM customers and 51% of SC). Qualitatively, PPM customers are at a heightened risk of self-disconnection, and while the reduction in self-disconnection due to levelisation is small, we consider it particularly important as PPM customers often do not have a choice and being off supply is a much bigger harm than an increase in cost of c.£10. On balance, these customers benefit more from levelisation than DD customers lose out. We quantify this in our IA.

3.26 Further, current DD customers for whom a PPM would be suitable could switch to achieve a lower total cost than currently available. PPM, however, is not a suitable payment method for all customers and price is not a key driver for payment method choice so the cohort able or likely to take advantage of this opportunity is small.

3.27 Our approach results in an income weighted net saving and results in market wide benefits through the reduction in bad debt and working capital:

Table 4: Summary of Phase 1 Analysis

Income Weighted Analysis	Implementation Costs [36]	Annual Operational Costs	Total debt Reduction	Bad debt Reduction	Working Capital Reduction
£112m	c.£1.5m	c.£3.1m	£12.3m	£0.4m	£1.5m

3.28 There is a modest reduction in total and bad debt as well as working capital costs supporting supplier financeability While individually these impacts are relatively

[36] Includes Supplier, Ofgem and RECCo implementation costs and 1 year of the ongoing costs associated with RECCo running the reconciliation mechanism and Suppliers reporting into it and settling invoices

small, collectively these elements sum to a meaningful impact. It should be noted that a reduction in total debt is in itself not a direct consumer benefit - debt can be beneficial to consumers as it can help smooth bills and allow payment when consumers can afford it. Bad debt and working capital costs do however scale with total debt and a reduction in these factors do represent a direct consumer benefit. We have assessed the impact on competition in our IA and consider that there will be a negative but negligible impact on competition.

3.29 The income weighted analysis shows a net saving of £112m for Phase 1. Levelisation results in differential impacts on an individual customer level and this analysis uses income to assess the effective impact of these cost savings/benefits on consumer finances, specifically those on low income (vulnerability characteristic), relative to disposable income. It allows us to look across and consider impacts to customers and the market as a whole. Qualitatively, the positive impact is due to a reduction in the cap level for PPM customers where there is a higher proportion of low-income, disabled and chronically ill vulnerable customers. On balance, we consider that the relatively small magnitude of the bill increase to DD customers, compared to the larger savings to PPM customers and the market benefits evidenced in Table 4 (that will benefit DD customers also) results in a net benefit to consumers overall, despite the direct increase in bills to DD customers.

3.30 In summary, this approach best delivers against our guiding aims and statutory objectives. It benefits PPM customers where there is a higher proportion of customers with disabled, chronically sick, and low-income vulnerabilities while also benefiting market function and consumers overall.

Table 5: Assessment of Phase 1 against Phase 1 policy aims

Aim	
Customers that pay by PPM should not pay a premium.	✓
Levelisation should be responsive to policy changes and be in the best interest of consumers	✓
There should be no gap in support following EPG removal	✓
Solution should be proportionate	✓

Implementation proposal

Phasing

Recap of statutory consultation

3.31 Phase 2 levelisation and reconciliation is dependent on further industry design and build and is not deliverable for April 2024. Therefore, in our statutory consultation we proposed a phased implementation in which we levelise standing charges from April 2024 to ensure no gap in support for PPM customers following the end of standing charge levelisation through the EPG. We would then proceed with Phase 2 following industry design and build of the associated systems and processes.

Stakeholder feedback

3.32 Stakeholders were broadly supportive of this phased approach, recognising its necessity as Phase 2 levelisation is not feasible for April 2024 implementation. Some respondents did however want to see implementation of both phases in April 2024.

3.33 One supplier believed that levelisation should not be enduring and that we should include a sunset clause for the policy. We note that for Phase 1 levelisation, the price cap model automatically sets the levelisation value to zero if the PPM standing charge falls below the DD standing charge. This acts as an effective sunset clause that would take effect when the PPM standing charge is lower than the DD standing charge, such as you may expect, when the smart rollout eventually completes.

Final proposals

3.34 We maintain the proposal from the statutory consultation to phase levelisation. We consider it prudent to monitor the impact of levelisation and only retain it so long as it remains in consumers' interests. There are a number of ongoing reviews, discussed in Chapter 7, which could materially impact the benefits case for levelisation and reconciliation. Therefore, we will review the operation and impact of Phase 1 levelisation before the end of the first year.

3.35 Alongside this review, we will consult on the levelisation of SC and DD debt-related costs, considering a new methodology for FTCs. This consultation will follow industry design and build of the reconciliation system, and completion of the Operating Costs Review, allowing us to consider the benefits case against updated benchmarks and would target April 2025 implementation. These timelines are driven by industry code modification and system build processes.

3.36 We consider this to be a prudent and proportionate approach, allowing us to monitor the actual policy impact and take the most informed decision on its continuation. As multiple suppliers commented in response to our statutory consultation, we will use the tariff and accounts RFI and switching data to monitor whether levelisation is having the intended effect on the FTC market, levelising PPM and DD standing charges and not causing material switching to inefficient payment methods. We will also be monitoring supplier payments to each other and expect to intervene if suppliers are not behaving as expected. Beyond this, we will use our IA framework to review broader impacts, including impacts on competition and consumers.

Implementation in SLCs

Recap of statutory consultation

3.37 We planned to introduce levelisation through an amendment to SLC 28AD. We proposed using a new levelisation cost allowance 'L' – which will be offset against the pre-levelised cap levels to calculate the post-levelised cap levels. We also proposed including a provision to set the allowance to zero in exceptional circumstances (following a brief consultation) and a specific reconciliation mechanism SLC.

Stakeholder feedback

3.38 There was broad support from suppliers on our SLC proposals. One supplier was broadly supportive but provided some small updates that should be made.

3.39 Two suppliers disagreed with the 'Turn to Zero' provision and requested further information about when it would be enacted and firm commitment to, at a minimum, consult prior to utilising.

Final proposals

3.40 We are introducing levelisation through an amendment to SLC 28AD. The SLC changes, which enable both phases of levelisation, are in Chapter 6 and Appendix 1.

3.41 We have included a provision in the SLC to allow us to set the levelisation allowance to zero, following consultation. We expect to only use this in exceptional circumstances where we are satisfied that it is within consumers' interests. We have included this provision as levelisation is a novel intervention, as such, it is prudent to monitor the effect and maintain the ability to intervene if needed. It is therefore not possible to prescribe the circumstances in which we might use this ability, but given the benefits outlined in this decision we expect there to need to be an exceptional intervening event and we would consult with key stakeholders before using it (albeit that consultation may be necessarily brief if extreme market events were driving us to suspend levelisation).

3.42 We have removed the proposed condition requiring suppliers comply with the reconciliation mechanism as we do not consider that they provide Ofgem with powers additional to those under SLC 11B for electricity and SLC11 for gas to ensure that suppliers comply with the REC and SLC5 for the provision of information to the Authority (among others). Consequently, we have also removed the proposed condition enabling us to publish guidance as we consider that, without the reconciliation mechanism condition, guidance can be included in other broader price cap guidance documents. This is discussed further in 6.43-6.46.

Implementation in the Price Cap Models

3.43 As noted above, a detailed approach to Phase 2 levelisation is dependent on further industry build which is not ready for April 2024. Hence this decision details the implementation of only Phase 1 levelisation in the price cap model. The implementation of Phase 2 levelisation in the cap model will be developed alongside the code modification process for unit rate reconciliation. A statutory consultation on any further model changes will be run prior to implementation.

Recap of statutory consultation

3.44 In our statutory consultation we proposed the introduction of a new Annex – Annex 9 – to calculate the levelised cap levels. The pre-levelised price cap would be taken from the existing overview price cap model and used within Annex 9 to calculate the post levelised price cap levels and the levelisation allowance. This calculation will equalise the standing charge for DD and PPM for each fuel and region, using the relevant number of customer accounts.

3.45 The model includes a logic clause that means that if the PPM standing charge falls below the DD standing charge level, levelisation will automatically cease to operate. This feature is built into the model and separate from the provision allowing us to turn the levelisation allowance to zero under exceptional circumstances.

3.46 The existing quarterly Tariff and Customer account Request for Information (RFI) will be used to inform the number of customer accounts on each payment method for the price cap calculation. To promote transparency, the aggregate customer accounts will be published and included for each cap announcement in our model. Should, through the development of the unit rate reconciliation mechanism or otherwise, a better data source be developed in the future, we would consider using this instead. A summary of these customer account numbers is provided in Table 6 below:

Table 6: Summary of Customer Accounts by Payment Method and Fuel Type (January 2024)

Tariff Type	Fuel Type	DD	PPM	SC
Single Rate	Electricity	17,987,412	3,515,011	4,567,135
Single Rate	Gas	16,908,573	3,151,724	4,113,292
Multi-rate	Electricity	2,083,951	492,403	547,932
Single and Multi-rate	Electricity and Gas	36,979,936	7,159,138	9,228,359

Stakeholder feedback

3.47 There were very few comments on the calculation approach. Those that commented were broadly in support although a few small updates to the model were proposed (these do not affect how the calculation is carried out, rather small model corrections). We have reviewed these and incorporated where appropriate.

Final proposals

3.48 We maintain our broad approach to the implementation of levelisation in the cap models, noting small updates to the annex as result of stakeholder feedback. More details are provided within Appendix 4.

Implementation on bills

3.49 There will be no change to customer experience following the introduction of levelisation. As the current EPG legislation does for PPM, the associated cost/saving will be applied directly to the consumer bill.

4. Uncapped tariffs

Chapter summary

We set out how we will apply levelisation to uncapped contracts: to include uncapped contracts, fixed and derogated tariffs, in the reconciliation mechanism but not to introduce an SLC requiring suppliers to reflect levelisation aims in their uncapped contract pricing.

We also provide an overview of stakeholder feedback from the statutory consultation on this approach.

Introduction and recap of statutory consultation

4.1 Uncapped contracts are all domestic contracts not covered by the cap, including FTCs, and derogated variable tariffs.[37]

4.2 In the statutory consultation, we proposed to levelise uncapped contracts by including uncapped contract customer accounts in the reconciliation mechanism but not to introduce an SLC requiring suppliers to reflect reconciliation principles in their uncapped contract pricing (as we had originally proposed). This means that in Phase 1, suppliers of DD FTCs would pay into the mechanism while PPM fixed term suppliers would receive money. There would be no specific obligation for suppliers to pass on these costs or saving onto consumers, however competitive pressures may cause the savings to be passed on. This was our preference as it avoids potential market distortions relating to uncapped PPM tariffs in Phase 1 and SC tariffs in Phase 2 becoming uncompetitive. This could happen as they would not be subject to the same levelisation discount as equivalent capped contracts if the levelisation discount is passed onto consumers via an SLC. If uncapped contracts were not included in the reconciliation mechanism, then the cost of levelisation would be borne by a decreasing number of DD customers, as we expect DD customers to switch away from capped tariffs at a disproportionate rate to SC and PPM customers.

[37] In November 2018, we set out our decision that the cap should apply to all standard variable tariffs (SVTs), but we provided a route for suppliers to apply for derogations for renewable electricity and renewable gas SVTs that have been chosen by customers in SLC 28AD.25. In January 2019, we granted enduring derogations for tariffs held by three suppliers (Good Energy, 100Green and Ecotricity).

4.3 We proposed to exclude contracts agreed prior to the publication of our decision as we do not expect these contracts to have included the costs associated with levelisation.

4.4 For default tariff customers covered by the cap, we proposed that levelisation would be performed through adjustment of the cap level.

Stakeholder feedback and Ofgem response

Not implementing an SLC to reflect reconciliation principles

4.5 All supplier respondents agreed with not including an SLC requiring suppliers to reflect reconciliation principles in their uncapped contract pricing. One consumer group disagreed, stating that introduction of an SLC would hold suppliers accountable through consequences for non-compliance or breach of mandatory conditions. Another consumer group considered that the original rationale for introducing such a requirement was sound.

4.6 On balance, we still consider that levelisation will not materially negatively affect competition or create market distortions, and therefore an SLC to reflect the reconciliation principles in uncapped contract pricing is not required. This is explored further in the decision below.

Inclusion of uncapped contracts in reconciliation customer accounts

4.7 Two consumer groups and six suppliers agreed with including FTCs in the reconciliation mechanism, while two respondents disagreed.

4.8 One respondent was concerned about the unintended consequences of applying levelisation to the FTC market. They fundamentally disagreed with levelisation due to risks that it would materially harm competition and supplier financeability. They had concerns with the precedent of using price cap rules to set pricing regulation of non-price cap tariffs. They also expressed concerns that this will have negative consequences for future consumers on fixed term tariffs including inflated pricing. The supplier also said that Ofgem failed to properly assess the impact of its proposals against its legislative obligations, including its principal objective.

4.9 We do not agree with the view that Ofgem has failed to properly assess the impact of its proposals against its statutory obligations. We are not applying levelisation to FTCs and are not specifying what suppliers do with their uncapped pricing, we are including FTCs in the reconciliation mechanism. We have considered our consumer objectives and frameworks in addition to the cost and societal impacts within the IA and feedback from stakeholders.

4.10 The respondent considered that this issue could be easily addressed by setting out a 12-month levy forecast to avoid unintended costs on FTC. Paragraphs 4.16-4.24 considers the impact on the fixed term market, and we consider how the levelisation rates can be used in Chapter 6.

4.11 Another respondent stated that including uncapped tariffs increases the risk that capped PPM and SC tariffs, as well as capped DD tariffs, become materially and consistently cheaper than what suppliers can offer on uncapped contracts. The respondent stated that this would have material impacts on the viability of the fixed term DD tariff market and effective competition in energy retail in general. Paragraphs 4.16-4.24 considers the impact on the fixed term market, and we consider how the levelisation rates can be used in Chapter 6.

Our decision

Do not introduce an SLC requiring suppliers to reflect reconciliation principles

4.12 We maintain our statutory consultation proposal not to introduce an SLC requiring suppliers to reflect reconciliation principles in their uncapped contract pricing. Suppliers will have a financial incentive to take reconciliation to account in their pricing, with DD prices being higher to take account of reconciliation liability, and whether SC or PPM prices are reduced, would be down to competitive pressures. For the avoidance of doubt, implementation will not impact the existing requirements for suppliers to comply with existing licence conditions, including SLC 27.[38]

4.13 We do, however, recognise that the consumer outcomes may not be as uniform if we introduced an explicit SLC and that some differentials may remain resulting from supplier specific differences in cost to serve between payment methods and how the supplier chooses to compete. Without an SLC, uncapped consumers are not guaranteed to see the bill impacts that capped consumers will see as part of our

[38] Ofgem, 2023, Standard conditions of electricity supply licence, Page 237, https://www.ofgem.gov.uk/sites/default/files/2023-03/Electricity Supply Standard Consolidated Licence Conditions - Current.pdf Ofgem, 2023, Standard conditions of gas supply licence, Page 212, https://www.ofgem.gov.uk/sites/default/files/2023-03/Gas Supply Standard Consolidated Licence Conditions - Current.pdf

levelisation policy, however we are allowing competition between suppliers to continue in the uncapped market.

4.14 On balance, we consider our proposal to be proportionate against the risks of unintended consequence from direct price regulation and practical issues with introducing an SLC and the complexities of assessing compliance. We already receive tariff and customer account data from suppliers on a quarterly basis which we assess compliance against default tariff cap charges to consumers and monitor FTC rates.

4.15 An SLC may be ineffective and open to gaming, such as through block tariffs, where consumers pay a certain amount for the first portion (or block) or energy and different rates for latter portions, to circumnavigate the SLC's intent. Foreseeable gaming risks could be addressed through detailed and extensive SLC drafting, but this increases complexity and compliance burden, which may be disproportionate as the cost of complying would be greater than the initial risk.

Include uncapped contracts in reconciliation customer accounts.

4.16 To investigate the supplier feedback of the potential impact on fixed tariff pricing and therefore any risk premium that would need to be added, we looked at the levelisation rates for the previous six price cap periods and variation over the periods. This is provided in Table 7 below.

Table 7: Variation in levelisation rates for DD customers (Dual fuel, TDCV)

	Jan 2023 - Mar 2023 9b	Apr 2023 - Jun 2023 10a	Jul 2023 - Sept 2023 10b	Oct 2023 - Dec 2023 11a	Jan 2024 - Mar 2024 11b	Apr 2024 – Jun 2024 12a	DD Variation over period
Phase 1	£8.54	£8.38	£8.38	£10.78	£10.77	£10.39	**£2.40**
Phase 2	£34.95	£28.61	£21.16	£22.01	£22.54	£20.44	**£14.51**

4.17 The variance in levelisation rates over the period is greater for Phase 2 than Phase 1. The largest variation for Phase 1 is just over £2 and the majority of this historical variance was due to the implementation of the ASC allowance. We are due to consider the next steps of the ASC allowance during the lifetime of Phase 1 therefore risks of the observed magnitude remain. The other causes of the variations in the allowance for Phase 1 would be any changes to the Smart Metering Net Cost Change allowance, however the variation is likely to reduce over time as further smart PPMs are fitted. Changes to the proportion of DD and PPM consumers in the market would also impact the allowance. As set out in the IA, we do not think there will be a significant number of consumers switching from DD to PPM as a result of levelisation. Therefore, we consider that the variance is largely predictable or of small impact where it cannot be predicted.

4.18 The largest historical variation in Phase 2 was due to the large wholesale cost changes seen across the period, this volatility occurred when the price cap was highly volatile. Given the observed variation in the levelisation allowance has been up to £15, which is more material than the variation for Phase 1, we expect that some suppliers may price into their contracts a level of risk premium to cover the eventuality that the allowances change over the duration of the contract. The largest expected cause of the unknown variance in future price cap periods is the Operating Costs Review. Further information on these policies is provided in Chapter 7.

4.19 The cost of capital required to fund the risk premium would be a percentage of the variance observed in historical periods, which for Phase 1 was £2.40. As set out in the IA, in a recent analysis as part of the Ban Acquisition Tariffs work, we found that a £10 increase in tariff differential (between gaining and losing supplier) is associated with approximately 3% to 3.6% in switching. As we expect the additional cost of capital to be much lower than £10, the price impact on fixed tariffs on switching would be negative but negligible.

4.20 We do not expect there to be significant impacts on supplier market entry and exit due to the additional risk premium required for FTCs. To the extent that this ultimately represents increased costs for suppliers, it could deter entry to (or investment in) the market or precipitate exit from the market for marginal participants. The FTCs in the market are currently priced lower than the cap by a larger amount than the proposed levelisation allowance, however it is not guaranteed that this situation will continue in future price cap periods and may be impacted by risk premiums associated with future price cap policy decisions. As part of our consultation for SC and DD debt-related costs levelisation, we will be investigating the impact of future price decisions on FTCs as there will be a bigger impact than Phase 1.

4.21 On balance, we still consider that FTCs should be included in the reconciliation mechanism. Including FTCs in the mechanism removes the incentives for DD suppliers to price a few pounds under the cap to profit from levelisation. By including

FTC in reconciliation, it removes the risk of the cost of levelisation being borne by a decreasing number of DD customers, because we expect DD customers to switch away from capped tariffs at a disproportionate rate to SC and PPM customers. For Phase 1, as suppliers operate in a regulated market, they already have to price regulatory and price cap risk into their FTCs, and we provide information to the industry through consultations and open decision-making process. REC change proposals are also public and open to suppliers to engage in, and the price cap methodology is set itself to provide a high degree of certainty and predictability to assist suppliers in managing this uncertainty. For Phase 1, we do not think that including FTCs in the reconciliation mechanism will have a material impact on supplier financeability due to the small impact on pricing which should not impact a supplier's net position.

4.22 For Phase 1, in order to reduce the impact on suppliers of existing FTCs, we consider that it is proportionate to exclude all existing FTCs that have commenced prior to the date of this decision document, 23 February 2024, from the reconciliation mechanism. For Phase 2 and for Phase 1 reconciliations, we will take into account the costs of when an FTC was agreed as part of the Phase 2 design. Further discussion of options to mitigate the impact of levelisation on FTCs is included within Chapter 6 - Levelisation reconciliation mechanism.

4.23 For derogated tariffs[39], there will be an impact on either the supplier or the consumer based on whether the supplier chooses to pass on the additional costs or savings to their consumers. We consider the impact of this to be small but will assess as part of our annual monitoring of derogated tariffs.[40]

4.24 We will monitor the outcome of our approach to uncapped contracts and, in particular, the impact that the inclusion of them in the reconciliation mechanism has on pricing differentials between capped and non-capped products as part of our future consultation for levelisation.

[39] Ofgem, 2018, Guidance: Derogation requests for renewable tariffs from the default tariff cap, https://www.ofgem.gov.uk/publications/guidance-derogation-requests-renewable-tariffs-default-tariff-cap
[40] Ofgem, 2023, Introduction of annual monitoring requirements for derogated renewable standard variable tariffs, from the default tariff cap, https://www.ofgem.gov.uk/publications/introduction-annual-monitoring-requirements-derogated-renewable-standard-variable-tariffs-default-tariff-cap

5. Other levelisation considerations

Chapter summary

We outline our decision on the treatment of smart and traditional prepayment meters, regional differences in levelisation and targeting particular groups of customers.

Introduction and recap of statutory consultation

5.1 In our statutory consultation, we highlighted other considerations within the scope of levelisation and asked for stakeholder feedback on whether there are any further considerations that we should explore.

5.2 In this Chapter, we outline a summary of stakeholder feedback to our statutory consultation and our decision on the following levelisation considerations:

- Targeted levelisation
- Regional levelisation
- Treatment of smart and traditional prepayment meters
- Warm Home Discount interactions

Targeted levelisation

5.3 Targeted levelisation would involve levelising costs by payment method with consideration of different customer vulnerability characteristics. This approach would allow for the targeting of specific customers and reduce the total cost to be shared by other customers, reducing the impact on bills for DD customers.

5.4 In our statutory consultation, we presented our preference not to proceed with targeted levelisation. We had concerns over our ability to effectively target within the proposed timescales to implement levelisation by April 2024.

Stakeholder Feedback and Ofgem response

5.5 There was broad agreement from all respondents that targeting either was not desirable or feasible within our timeframes, with the exception of one individual. Some respondents commented that targeting on the basis of vulnerability would make this a social policy and therefore potentially outside of Ofgem's remit.

5.6 One supplier and one consumer group commented that they agreed that Ofgem should not target levelisation, however we should work with the government and other regulators to better gather and share data. Another consumer group requested we consider whether targeting could be implemented at a later date.

Our decision on targeting

5.7 We maintain our proposal from the statutory consultation and have decided not to target levelisation, noting the overwhelming stakeholder support and the practicalities around effectively targeting within our implementation timescales. Our wider affordability work will help inform future decisions about if and how to target further interventions, but recognise that at this point in time, policies that target on the basis of vulnerability may be better implemented by government.

Regional levelisation

5.8 Currently, standing charges and unit rates vary dependent on Network Operator region, for both capped and uncapped tariffs; these are driven through the regional variations in network charges and reflect the cost to serve consumers in different regions. Levelisation between regions would remove these regional differences.

5.9 In our statutory consultation, we proposed not to remove the regional differences because of the complexity to reconcile. We noted the broader market context of reforms looking to increase locational variation in tariffs and improve locational cost and demand signalling, intended to ultimately reduce total system cost. Introducing a national cap could be contrary to the direction of these reforms and increase delivery mechanism costs, inevitably delaying an April 2024 implementation.

Stakeholder Feedback and Ofgem response

5.10 There was broad support from suppliers and industry bodies for our proposal not to levelise between regions. One supplier agreed with our decision not to levelise between regions but disagreed with our rationale. They felt that levelisation between regions is not contrary to broader market reforms as the intention behind the reforms is to improve locational efficiency signals whereas the differentials in the price cap are driven by sunk network cost and DNO efficiency rather than accurately reflecting efficiency signals.

5.11 Another supplier wanted further consideration of levelisation of specifically, the regional differences in bad debt, but noted that this should not delay implementation. One consumer group and one individual thought that we should levelise between regions as the current regional differentials are unfair to both rural customers and Scotland as a whole.

5.12 We consider that levelising between regions would introduce an extra layer of complexity to the levelisation process. We consider that significant further analysis would need to be performed on the impact of levelising between regions, and doing so would delay implementation of levelisation.

Our decision on regional differences

5.13 Our decision is to maintain our proposal from the statutory consultation not to levelise between regions.

5.14 In our Call for Input (CfI)[41] we invited stakeholder views on standing charges, including on regional variations in standing charges. We are now considering the response to this CfI and will publish our findings in due course. In our review of Phase 1 and consultation on the levelisation of SC and DD debt-related costs, we will reconsider the decision not to levelise between regions considering any findings or changes resulting from this review (or reviews such as the Operating Costs Review) and consult on any changes to our approach if required.

Treatment of smart and traditional prepayment meters

5.15 In our statutory consultation, we proposed not to differentiate between smart and traditional PPMs. We recognised that there are a range of benefits of smart PPMs for consumers and suppliers, and that there may be a case to introduce smart PPM as an independent payment method. We also noted that this is being considered through the Operating Costs Review and is not within the scope of this consultation.

5.16 We also stated in our statutory consultation that it is not feasible to use the cost to serve of smart PPMs as the benchmark for all PPMs as we do not consider an efficient supplier would be reasonably able to serve all PPM customers through smart meters at this stage. While we are careful not to disincentivise it, incentivising smart PPMs is not a specific aim of levelisation. Levelisation does not reduce the financial incentive on suppliers to install smart PPM present in the price cap.

[41] Ofgem, 2023, 'Standing charges – call for input', https://www.ofgem.gov.uk/publications/standing-charges-call-input

Stakeholder Feedback and Ofgem response

5.17 There were mixed views on how we should treat smart and traditional PPMs.

5.18 Many respondents were supportive of our exploration of distinguishing traditional and smart PPMs in the price cap but agreed that this should be considered as part of the Operating Costs Review. One respondent thought that we should not differentiate between smart and traditional PPMs. Three respondents thought that we should use levelisation to incentivise smart PPM. One suggested we do so by making smart PPM the cheapest payment method. The others did not propose how we should do so.

5.19 One supplier disagreed strongly with our proposal. It stated that our proposal dulls the incentive for suppliers to move consumers onto smart PPM but did not provide further detail. There are currently incentives in the price cap to install smart PPMs. The PPM cap allows the recovery of costs associated with the proportion of smart and traditional meters defined in the smart meter rollout profile. If a supplier is ahead of this profile, they are able to recover higher costs than they incur (if you assume a cost to serve advantage of smart PPM over traditional PPM). Conversely, if a supplier is behind this profile, they will be unable to recover their costs. As this policy is revenue neutral, the existing incentives to move customers to smart prepay are unimpacted, therefore we do not agree with this view.

5.20 The supplier also stated that the policy would necessarily increase costs for smart PPM customers as they price their smart PPM tariffs in line with their DD tariffs, so increasing the DD cap would necessarily increase what they charge to smart PPM. The decision to align the tariffs is a commercial one, and not an action taken by most suppliers. While we recognise that this particular supplier may increase their smart PPM tariff, the majority of smart PPM customers would see a bill reduction.

5.21 The same stakeholder proposed that we either only reconcile 'edge case suppliers' with above average numbers of PPM customers or make smart PPM customers subject to the DD cap, only reconciling levelisation costs for traditional PPM customers, reducing the number of traditional PPM meters we reconcile over time to support the phase out of traditional infrastructure, acting as an effective sunset clause for levelisation. Another stakeholder supported the latter approach.

5.22 We recognise the advantages of a sunset clause for this policy as changes to the market could impact our benefits case. We intend to conduct a review of Phase 1 (discussed in paragraph 3.34 - 3.46), after which we would consider any changes to the methodology through consultation. We also recognise the advantages of smart PPMs and recognise our duty to encourage efficiency and our role in supporting the smart meter rollout. Suppliers' smart meter rollout obligations are set out in licence conditions separate to the cap. These are the primary mechanism for incentivising the smart meter rollout. Further, we have a number of concerns relating to the approach proposed by the stakeholder:

- The current PPM price cap does not set a separate cap for smart or traditional PPM tariffs; the PPM cap reflects the weighted average costs of both. If smart PPM customers are removed from this combined cap, the cost to the remaining traditional PPM customers would increase, as would the amount that would need to be reconciled.
- Further, the current blended PPM cap uses the smart meter rollout profile as the proportion of smart and traditional meters. This means that it is already set up to phase out suppliers' ability to recover traditional PPM costs in line with expected smart meter installation.
- Without changes to the methodology of calculating the PPM cap (which we are considering separately through our Operating Costs Review), the proposed approach would not result in a lower smart than traditional PPM cap as claimed.

Our decision on treatment of smart and traditional PPM differences

5.23 We maintain our proposal from the statutory consultation not to differentiate between smart and traditional PPMs. Depending on the outcome of the Operating Costs Review, we may reconsider our approach and consult if necessary.

Warm Home Discount (WHD) interactions

5.24 One supplier commented that they would like Ofgem to review licence condition 28AD.40 which requires suppliers to treat some customers that are in receipt of WHD payments as DD customers. They felt it would be simpler and fairer to remove this clause and charge WHD customers the post-levelisation cost associated with their chosen payment method. We do not propose reviewing or removing this clause. A high proportion of WHD customers exhibit low income and pensionable age vulnerabilities. SC is particularly prevalent in pensionable aged customers due to barriers to utilising other payment methods and we do not consider that increasing costs for these consumers is in their interest.

6. Levelisation reconciliation mechanism

Chapter summary

Here we set out the levelisation reconciliation mechanism. A reconciliation mechanism is required, in this case, to ensure that current and future supplier stability, market diversity and therefore competition is maintained, by providing greater certainty that specialist suppliers can recover efficient costs.

Today, we approved REC change proposal R0147, which sets out the detailed code operation for the standing charge reconciliation mechanism from 1 April 2024. We will work further with the industry to define the requirements and operator(s) for unit rate reconciliation.

Introduction and recap of statutory consultation

6.1 In the statutory consultation, we set out our proposal to introduce a new mechanism for the reconciliation of levelisation costs, to avoid distorting supplier competition and impacting specialist suppliers. The new mechanism would be billpayer, not government, funded. We proposed implementing a reconciliation by difference mechanism, invoiced a month in arrears.

6.2 Ofgem would be responsible for calculating the levelised cap and the levelisation allowance for standing charge and unit rates. These rates would be calculated and provided to the reconciliation operator and suppliers on a quarterly basis. RECCo had been identified as the reconciliation operator for standing charge (Phase 1) levelisation and the appropriate operator(s) will be identified for unit rate (SC and DD debt-related costs) levelisation as part of the design.

6.3 We proposed using a daily rate adjustment to levelise standing charges which will be implemented in April 2024 and a unit rate (volumetric) reconciliation, based on estimated consumption, to levelise unit rates which would be implemented in October 2024 at the earliest.

6.4 We also proposed excluding existing FTCs agreed prior to the decision date from the reconciliation mechanism, to mitigate the impact on suppliers who may not have priced levelisation into those contracts.

Stakeholder feedback and Ofgem response

Reconciliation mechanism

6.5 The majority of respondents were in support of our updated reconciliation mechanism proposals.

6.6 Two consumer groups disagreed with bill payer funding and thought that an alternative source of funding should be found. As this policy replaces EPG, which is government funded, the reconciliation mechanism has an industry led solution for practical and logistical reasons, therefore it will be initially funded by suppliers who ultimately will pass these costs on to billpayers as there is no alternative source of funds.

Reconciliation operator

6.7 One supplier did not think having a separate unit rate / standing charge operator would be efficient, depending on the ability of RECCo to deliver the requirements. We will consider who should be the unit rate reconciliation operator as part of the design of the unit rate reconciliation later this year.

6.8 Suppliers who provided a view within their response agreed with our standing charge reconciliation proposals. However, there was disagreement with using estimated consumption in unit rate reconciliation. Three suppliers were concerned that this approach would not be sufficiently accurate as there is a variance between estimated and actual volumes. Alternate proposals were suggested for unit rate levelisation with one supplier suggesting using data from the first two electricity settlement reconciliation runs (R1 and R2), while another supplier stated the process for using actuals is too complex and disproportionate.

6.9 We will take this feedback into account as we develop a proportionate design for unit rate levelisation in due course with industry.

6.10 One respondent disagreed with the standing charge reconciliation having daily changes in the levelisation rates. We think there may be a misunderstanding of our initial proposal; we have always proposed for the levelisation rates to be set monthly rather than changing daily based on any change in payment method proportions.

Reconciliation mechanism impact on FTCs

6.11 A supplier thought that under the current proposed approach to levelisation, it would be difficult to forecast the levelisation rates 12-months forward which is required for FTC, due to unknowns in the future split in payment method proportions. We disagree that we will see changes in payment method proportions which will significantly impact the levelisation rates, as set out in the IA; the vast majority of switching in the last 10 years are within payment method, therefore changes in payment method would have limited impact on levelisation rates and therefore have limited impact on fixed tariff pricing especially in Phase 1.

6.12 A respondent stated that there are areas of uncertainty in future price cap period pricing, with greater uncertainty provided in Phase 2 than Phase 1 which impacts FTC pricing. To resolve this, the respondent proposed three potential options which could be implemented in the SLCs:

i) Excluding fixed DD tariffs from the levelisation levy

ii) Fixing the levelisation levy for fixed DD tariffs for 12 months

iii) Fixing the levelisation levy for fixed DD tariffs to whatever the levy was calculated as at the point of sale.

6.13 A supplier also stated that the levelisation allowance should set out a 12-month forecast, to avoid unintended costs on FTCs. Another supplier proposed a levelisation allowance set on a rolling 12-month horizon, with a quarterly update.

6.14 As discussed in Chapter 4, the reconciliation mechanism will apply to all capped and uncapped tariffs including derogated tariffs for domestic consumers. There will be some impact on FTC pricing, which will be of very low materiality in Phase 1 but greater in Phase 2, hence we are considering mitigations to reduce the impact on competition. We have combined the feedback from all parties and investigated potential options to mitigate the impact that levelisation has on the FTC market including the following options:

a. Excluding FTCs from the reconciliation mechanism

b. Fixing the levelisation rates for a 12-month period

c. Setting the levelisation rates at the time the FTC is agreed.

6.15 The advantages of these options would be to reduce the uncertainty of the levelisation rates and therefore the risk premiums that suppliers may apply to FTCs. This would lead to a reduced price seen by FTC DD consumers and could allow suppliers to price under the price cap to a greater extent. The disadvantages would be the additional complexity required in the reconciliation mechanism (which would not be deliverable by April 2024), the impact on an efficient calculation of the price cap and the impact on efficient suppliers who may not receive monies due from levelisation if payments into the mechanism are not sufficient.

6.16 To balance the risk on the FTC market with the certainty provided to price cap consumers, we are proposing to consult on options to address this in Phase 2, including fixing the rates when the contract is agreed or fixing the levelisation rates for a 12-month period and reviewing every three months. This could apply to the standing charge element of contracts agreed during Phase 1. We will investigate the possibilities of implementing it in line with Phase 2 to potentially cover both standing charge and unit rate levelisation. We consider that uncertainty in future price cap period pricing will have limited impact on the FTC market in Phase 1, due to the variance in differences between recent price cap periods shown in Chapter 4 and the limited policy changes which will impact standing charges before April 2025. We will assess the impact on the monies received by capped consumers due to this change as part of our Phase 2 considerations and investigate if there is any value in making any future adjustments to calculations.

Competition impact

6.17 A respondent thought that the proposal would have a distortive and dulling impact on competition, as suppliers have already reduced their prices and would create uncertainty and make it difficult for a supplier to price FTCs competitively.

6.18 We disagree with these points. As stated in the IA, levelisation rates are likely to have a minor impact on competition, therefore we do not consider that it will be dulled or distorted. Only one large supplier has significantly decreased their smart PPM standing charge in the current price cap period and they could choose to continue the discount level they currently provide. If a reconciliation mechanism is not implemented, it will have a large impact on specialist PPM suppliers. On balance, as discussed in paragraph 6.16 we do not think there will be large pricing impact in Phase 1, and it would not be proportional to delay the benefits of levelisation. We appreciate that further certainty in the levelisation rates for FTCs is needed for Phase 2.

Other comments

6.19 A respondent noted concerns in relation to dispute process, payment exchange, data reporting, data accuracy and Market Stabilisation Charge (MSC) framework reliability.

6.20 These concerns have been considered within the REC change proposal R0147 which sets out what data is required for the reconciliation mechanism to work, how the dispute process will work, and data reporting and accuracy. For the payment exchange, there is no need for a separate supplier bank account for levelisation.

6.21 A respondent suggested that there is a risk that suppliers, in order to profit from levelisation, may start cancelling DD and placing consumers on SC. We disagree with the assertion that suppliers can just cancel a DD and place a consumer on SC, as there are negative customer experience impacts on this, it would open the supplier to debt risks and could be a breach of the contract with the consumer. We will monitor this risk through the tariff and customer account RFI but, at present, have no evidence it will occur.

6.22 A supplier suggested including a sunset clause within the reconciliation mechanism, a strict review by 2025, and the possibility of applying a reconciliation mechanism only in respect of specialist suppliers should be explored.

6.23 As set out in our aims in paragraph 2.42, we plan to review and consult on levelisation and the reconciliation mechanism in line with the Operating Costs Review. If levelisation is suspended, then reconciliation will cease as the levelisation rates will be 0.

6.24 We are not able to target specific suppliers as part of this policy due to the impact on other efficient suppliers, it could impact the types of products that all suppliers could offer and dampen innovation.

Phase 2 implementation

6.25 There were mixed views on when Phase 2 of the reconciliation mechanism should be implemented, one party suggested implementation in April 2024, others preferred October 2024, while another wanted to minimise the time lag between the first and second phase with implementation occurring by end of 2024 at the latest.

6.26 Due to the potential impact of the Operating Costs Review on the levelisation of DD and SC bad debt costs and the industry engagement required to agree the design, we plan to consult on the levelisation of SC and DD debt-related costs and review the operation and impact of PPM and DD standing charges, including a new methodology for FTCs) for implementation in April 2025.

Exclusion of FTCs agreed prior to decision date from levelisation reconciliation mechanism

6.27 Most respondents agreed with our proposals on excluding FTCs agreed prior to the decision date. One supplier noted that Phase 2 would add additional complexity as billing periods could cover old and new contracts. However, for completeness, it may be appropriate to publish the numbers and renewal profile of those FTCs, as this may help preserve data integrity and assist future modelling. This is particularly the case when it proceeds to Phase 2 of levelisation. One mentioned that if there is a change in the proposal from statutory consultation to decision, then additional time should be allowed to suppliers to price them in.

6.28 One consumer group said that levelisation would be futile, and more costly to consumers if pre-levelisation tariffs still existed post-April 2024. We disagree with this view as cancelling existing contracts would undermine the confidence that consumers have in the certainty that FTC provide, therefore we do not agree that this action is proportionate for this issue and consumers can change FTC subject to exit fees.

Our decision

6.29 Broadly, we maintain our position from the statutory consultation.

Reconciliation Mechanism

6.30 We will implement a new reconciliation by difference mechanism to ensure that current and future supplier stability, market diversity and therefore competition is maintained by providing greater certainty of suppliers recovering efficient costs following the implementation of levelisation. It also reduces some of the market distortions which moving away from cost-reflectivity could create. In the IA, we have set out the supplier impacts of implementing levelisation without reconciliation. Without a reconciliation mechanism, specialist PPM suppliers would have a significant revenue impact which could impact their viability. The reconciliation mechanism should be neutral on the ability for a notional supplier to secure investment for business as the position following reconciliation should be the same as now. Introducing a reconciliation mechanism will protect market innovation by ensuring existing and new specialist suppliers can continue to operate. Implementing levelisation without reconciliation would distort current market competition and could undermine the PPM market. We appreciate that reconciliation mechanisms may have downsides and may not be appropriate in all circumstances. There are costs and complexity associated with the mechanism, reconciliation mechanisms have collateral risks if a supplier cannot pay into a mechanism and can distort competition but in this case the distortion would be significantly less than implementing levelisation without a reconciliation mechanism. However, in this specific case, we consider it to be the correct mechanism to implement, particularly due to the impact on payment method specialist suppliers who, without this mechanism even if they were efficient, may not be able to survive, without reconciliation, the positive impacts of levelisation set out in Chapter 3 would not be realised.

Supplier Treatment

6.31 In terms of cost recovery, we will treat suppliers the same through the mechanism, which will be based on numbers and volumes associated with payment methods. Cost differences between more efficient and less efficient payment methods will remain, which should continue to incentivise suppliers to manage their customers' payment methods. As shown within the IA, we do not consider that there will be any large impact on competition from risk premia applied to FTC during Phase 1.

Rate calculation, phased implementation, and invoicing

6.32 On balance, we maintain our proposal that for Phase 1, the levelised cap and levelisation rates will be calculated by Ofgem for each fuel, region and payment method and provided to the reconciliation operator and the industry on a quarterly basis, which will be published alongside the cap level for that period.

6.33 As set out in paragraph 6.16, we agree that the proposals in paragraph 6.32 will need to be reconsidered once the design for SC and DD debt-related costs levelisation has been identified. For SC and DD debt-related costs levelisation, there is a strong interaction between the volatility in the unit rate levelisation rates and the outcome of the Operating Costs Review, as the review is likely to affect how debt is treated. As part of the design and consultation of SC and DD debt-related costs levelisation, we will consider other options. We are currently exploring whether levelisation rates should be set at the time of the FTC or set over a 12-month period which is reviewed every 3 months.

6.34 We will implement a fixed daily charge which will be applied monthly and calculated on a quarterly basis for the standing charge difference. For unit rate reconciliation, further industry design is required in the coming months to design the appropriate process. To date, we have not identified any unintended consequences of a phased implementation. A unit rate reconciliation operator(s) should be identified and selected based on the industry design.

6.35 Invoicing will be carried out monthly by the reconciliation operator based on supplier data, which will include monthly changes in the number of customers associated with each payment method. We consider that monthly invoicing balances the administrative costs with the capital implications of the levelised cap.

Fixed Term contracts

6.36 Any FTCs, for all payment methods, agreed and commenced prior to the decision date (23 February 2024) are not included within the reconciliation mechanism. Any FTCs agreed and commenced from the decision date onwards, including the decision date itself, will be included within the standing charge mechanism. This mitigates the potential revenue impact of including existing fixed priced contracts that do not have the cost of levelisation priced in (up to £20 million). For Phase 2, we will consult on their treatment as part of the design.

Summary reconciliation approach

6.37 A summary of our approach for implementing the new mechanism is provided in **Table 8**.

Table 8: Updated reconciliation mechanism summary

Topic	Decision
Mechanism	New mechanism is required
Type of Mechanism	Reconciliation by difference
Standing Charge Reconciliation	Based on a daily rate adjustment
Unit Rate Reconciliation	To be developed and consulted on separately
Invoicing Cadence	Monthly
Levelised Cap Calculation	Ofgem on a quarterly basis (to be reconsidered for Phase 2)

Standing Charge (Non-Volumetric) Reconciliation Operator	RECCo
Unit rate (Volumetric) Reconciliation Operator	To be identified and selected following industry working groups
Phase 1 Implementation	April 2024
Phase 2 Implementation	In line with the Operating Costs Review (April 2025)
Phase 1 FTC	FTC agreed before decision date will be excluded from the reconciliation mechanism
Phase 2 FTC	To be consulted on for Phase 2 design
Capped and Uncapped Tariffs	All included within the reconciliation mechanism
Non-Domestic Sites	Not included in the reconciliation mechanism

Code change proposal

6.38 In September 2023, Ofgem selected RECCo as the external delivery partner for standing charge levelisation. As the delivery partner, RECCo are responsible for designing, at risk, the industry processes that would enable the facilitation of payments between suppliers to allow reconciliation to take place. The decision to select a delivery partner was taken in September in the interest of time, as it was imperative to start the design and development of industry processes to have reconciliation ready for delivery in April 2024 subject to our policy decision.

6.39 On 10 October 2023, RECCo was selected by Ofgem as the standing charge reconciliation operator. This work was to further develop industry processes, as well as design, build, test and deliver a functional system that enables the facilitation of reconciliation between energy suppliers, for standing charge levelisation. RECCo was identified as the only dual fuel code body in the market who also had experience of running a similar scheme; the initial cost estimations suggested that RECCo could carry out both roles in the most cost-effective manner and therefore was best placed to develop, at risk, industry processes that will enable Phase 1 levelisation with a daily rate adjustment.

6.40 REC change proposal R0147[42] was raised by the REC Code Manager on 22 September 2023. The change proposal introduces the necessary governance and charging arrangements into the Retail Energy Code, to facilitate standing charge reconciliation between suppliers. The change proposal sets out the data requirements

[42] The final change report can be found on the REC Portal.

for suppliers as well as the timetable of when they will have to pay money in and receive money from RECCo as the reconciliation operator.

6.41 On 23 February 2024 we approved the change proposal as set out in the decision letter.[43]

6.42 Any further changes that will be required for unit rate reconciliation will need to be developed under the appropriate code and will be considered in due course.

SLC and guidance document

6.43 In the statutory consultation we proposed to introduce the reconciliation mechanism via an amendment to SLC 28AD. We proposed that we would publish a guidance document in 2024 to support the implementation and delivery of the scheme.

Stakeholder Feedback and Ofgem response

6.44 As discussed in Chapter 3, there was support for SLCs to be introduced for reconciliation mechanism via an amendment to SLC 28AD and for a specific reconciliation mechanism SLC. One supplier noted the close interaction between the proposed levelisation allowance and levelisation reconciliation mechanism conditions, with the reconciliation mechanism being a consequence of levelisation.

Our decision

6.45 The REC change proposal R0147 sets out the requirements on a supplier to provide data to RECCo and the charging arrangements between RECCo and suppliers. Ofgem have existing powers under SLC 11B for electricity and SLC11 for gas, to ensure that suppliers comply with the REC and SLC5 for the provision of information to the Authority (among others). The proposed levelisation reconciliation mechanism SLC provision did not in our view, following further analysis, provide any necessary extra powers to Ofgem (ie in addition to existing powers). Therefore, in this case we have decided not to include that SLC provision in the implementation.

6.46 We have removed the condition to publish guidance, because following further analysis we consider that due to the removal of the proposed reconciliation

[43] Ofgem, 2024, Authority decision on REC modification proposal R0147 - Prepayment Levelisation https://www.ofgem.gov.uk/publications/authority-decision-rec-modification-proposal-r0147-prepayment-levelisation

mechanism SLC, guidance can be included in other broader price cap guidance documents.

Controls on data and audit provisions

6.47 In the statutory consultation, we did not consider it necessary for suppliers to fund a specific audit of their data involved in the reconciliation scheme. Instead, they should keep records of the data to allow Ofgem or other industry bodies to retroactively review data to ensure quality and accuracy. This was to balance the need for a robust system against the operational overheads of a scheme.

Stakeholder Feedback and Ofgem response

6.48 The majority of respondents agreed with our proposals not to require a supplier funded audit. One respondent and one consumer group did not want these potential costs to be passed on to consumers. Another consumer group wanted more transparency and clarity regarding whether consumers or suppliers would bear the costs of more robust auditing. One supplier disagreed with our proposal and thought it was imperative for an audit to mitigate the risks of suppliers gaming the system, by shaping their customer book to guarantee revenue from non-DD consumers.

Decision

6.49 Given the scale of the reconciliation mechanism programme, the reliance on supplier self-reported data and the need to protect the integrity of the system, on balance, we require some form of assurance or audit from suppliers. Paragraph 9.1 of the REC schedule[44] created by R0147 gives us authority to audit suppliers and RECCo. We will ensure that the requirements placed on suppliers are proportionate to the risk.

Single and multi-rate tariffs

6.50 The standing charge reconciliation system has initially been designed to allow only for only one type of electricity tariff. Two different tariff types will be required to allow for separate single and multi-tariff levelisation rates. We have assessed delaying implementation until the system can cater for both tariff types however, due to the impact on PPM consumers of not implementing levelisation by 1 April

[44] The REC schedule can be found on the REC Portal.

2024, and the impact on suppliers of not implementing the reconciliation mechanism, we have decided to implement with one rate. This rate will be a blended levelisation rate based on the single and multi-rates. We intend to make changes so that the reconciliation system can allow for single and multi-rate tariffs and true-up suppliers to their correct position. Further information on how we will do this will be provided in a separate letter we will issue in due course.

Compliance and enforcement

6.51 We recognise the importance of ensuring compliance and enforcement of the scheme for the financial and commercial stability of the supply sector. As such, we will implement a compliance and enforcement approach for the non-submission of data and non-payment of reconciliation monies.

6.52 Non-submission of data will be subject to the appropriate compliance and enforcement processes to understand the reasons for the missed submission and appropriate action will be taken. A streamlined enforcement strategy will be implemented in the event of non-payment. This ensures appropriate enforcement action can be taken within the timelines of the reconciliation process.

6.53 RECCo have also set out in R0147 their compliance and enforcement approach using the full powers of the REC Performance Assurance Board. These processes will run in parallel.

7. Interactions with other workstreams and next steps

Chapter summary

We discuss our interactions with other Ofgem workstreams, including the Operating Costs Review, Debt-related Costs Review and Standing Charges Review.

Introduction and recap of statutory consultation

7.1 As outlined in our statutory consultation, the levelisation workstream has interactions with several other Ofgem workstreams. These workstreams include the Operating Costs Review, Debt-related Costs Review and Standing Charge Review. We will continue to take all decisions in the round and set out here our current view of the interlinkages and sequencing.

Operating costs review

7.2 Ofgem is conducting a review into the operating cost-related allowances in the cap. As set out in the May 2023 operating costs review call for input,[45] there are several reasons we set out for undertaking a review of the operating cost allowances. These include the age of the data used to set the allowances and the number of changes the market has gone through since the allowances were set.

7.3 The Operating Costs Review aims to consider whether changes to the allowances are appropriate and whether the allowances continue to reflect the efficient costs a notional efficient supplier may incur.

7.4 In response to our statutory consultation, multiple stakeholders commented on the need to deliver the Operating Costs Review in line with levelisation so that we are reconciling against an accurate baseline. As we do not propose delaying the implementation of Phase 1 levelisation beyond April 2024 (so that there is no gap in support for PPM customers following the end of the EPG), delivering the Operating Costs Review alongside this implementation date is unfeasible. Levelisation is net revenue neutral therefore suppliers should be able to recover the same costs,

[45] Ofgem (2023), Price cap – Call for input on the Operating Cost Allowances Review. https://www.ofgem.gov.uk/publications/price-cap-call-input-operating-cost-allowances-review

irrespective of whether we implement Phase 1 before the Operating Costs Review concludes.

7.5 Subject to review and consultation, Phase 2 levelisation is planned for April 2025 implementation, allowing conclusions from the Operating Costs review to feed into the associated consultation. This enables us to deliver it by the time we have delivered the Operating Costs Review and reconcile against a more accurate baseline from then onwards.

7.6 If the Operating Costs Review results in structural changes to the cap, such as changing the way that bad debt is assigned in the payment method uplift, we would assess whether our approach to levelisation needs to be changed in response. We expect to change the payment method differentials through the Operating Costs Review, so the Phase 2 impacts set out in this decision are illustrative.

7.7 As a next step on the Operating Costs Review, we intend to issue a policy consultation in April 2024. The policy consultation will set out the option space across a number of aspects of the Operating Costs Review, these will include:

- Setting the allowance for core operating costs (excluding industry costs and debt-related costs)
- Considering how we set an enduring allowance for debt-related costs and how this is updated over time. It is likely this will change the differential between DD and SC customers and therefore will interact with Phase 2 levelisation
- Considering whether we should set a separate cap level for smart meter customers or retain the 'blended' cap level we currently set. Alongside this, we will also assess how we model any smart meter allowance to reflect the transition
- Whether we set a pass-through allowance for industry charges based on charging statements rather than including these costs in the central benchmark
- How we update the different components of operating costs over time to ensure the allowance remains appropriate on an enduring basis

7.8 When assessing the component areas, there are a number of strategic policy areas we will need to consider. Both of the below key factors will determine the level of payment method differential we set in the price cap:

- The stringency at which we benchmark costs across the market. This could differ between different components

- How costs are allocated across groups of customers (eg payment methods and consumption levels)

7.9 We will consider the interaction between related workstreams, when we consider the options for the Operating Cost review, to ensure the various policies work together and we achieve a coordinated policy outcome. In the meantime, we will work with existing baselines and are comfortable that reconciling against existing baselines is appropriate in the interim. As discussed in paragraph 3.14, there should be no material reduction in the accuracy of the costs that suppliers can recover following levelisation implementation.

Debt-related costs review

7.10 We are undertaking a review of debt-related costs, with a view to considering whether we should make an adjustment to the debt-related costs allowance in the cap. During this review, we have gathered a range of evidence, including requests for information sent to suppliers, a CFI,[46] published in April 2023. We published a policy consultation[47] in October 2023 followed by our December consultation[48] seeking views from all stakeholders. We also published a decision in August 2023 setting out our proposals to introduce a temporary 12-month allowance for bad debt associated with ASC given to PPM customers.[49] As the ASC allowance is on the standing charge element of the PPM cap, Phase 1 levelisation will levelise ASC across PPM and DD customers from April 2024.

7.11 We have also published today our decision on an additional bad debt allowance in the form of a float and true-up. This additional allowance falls exclusively on the unit rate so will not affect Phase 1 levelisation. The float will be provided over the period of April 2024 to March 2025 and will be followed by a true-up. Phase 2 levelisation will be implemented from April 2025 and therefore the float, which is an adjustment on the unit rate, will not be levelised between payment methods but the true-up

[46] Ofgem (2023), Price cap- Call for input on the allowance for debt-related costs. https://www.ofgem.gov.uk/publications/price-cap-call-input-allowance-debt-related-costs
[47] Ofgem (2023), Additional debt-related costs allowance policy consultation. https://www.ofgem.gov.uk/publications/additional-debt-related-costs-allowance-policy-consultation
[48] Ofgem (2023), Additional debt costs review consultation. https://www.ofgem.gov.uk/publications/energy-price-cap-additional-debt-costs-review-consultation
[49] Ofgem (2023), Price cap – Allowance for additional support credit bad debt costs. https://www.ofgem.gov.uk/publications/allowance-additional-support-credit-bad-debt-costs

might. As discussed in the decision, we will consider this interaction in how we allocate costs at the true-up in order to make a cohesive decision.

Affordability call for information

7.12 The energy market has stabilised after the turmoil of recent years, but energy debt is at a record high, and many are struggling to pay their bills. We are taking a step back to consider issues surrounding debt and affordability across the market for struggling consumers and announcing this soon.

Standing charge review

7.13 We recognise the impact that increasing standing charges will have on some customers, and that adding fixed costs to customers' bills may disproportionately impact those on lower incomes. For this reason, Ofgem has decided to undertake a programme of stakeholder engagement, to ensure that we are doing all we can to minimise these negative impacts on customers.

7.14 In the Standing Charges CFI,[50] which was published on 16 November 2023, we set out what standing charges are, why they have increased, and how we expect them to change in the future, examining how potential changes might affect different types of customers.

7.15 Levelisation and the Standing Charges CFI are complimentary. The outcome of this consultation will influence the relative magnitude of standing charges for different payment methods. The contributing factors to these standing charges, and how they may evolve in the future, is considered in the CFI.

7.16 We are currently considering the responses received to the standing charges CFI and considering next steps. We will publish a statement on the feedback received, proposing next steps in due course.

Next steps

7.17 This decision is the final step in our consultation process for levelising PPM and DD standing charges (Phase 1), which will be implemented from April 2024.

7.18 We will review the operation and impact of Phase 1 levelisation before the end of the first year. We will consider whether it is in consumers interest to maintain the

[50] Ofgem (2023), Standing charges – CFI https://www.ofgem.gov.uk/publications/standing-charges-call-input

levelisation of PPM and DD standing charges and will consult on the levelisation of SC and DD debt-related costs, following the industry design and build of the volumetric reconciliation mechanism and the Operating Costs Review. We will consider an updated methodology to account for risks to the FTC market for Phase 2 (PPM and DD standing charge levelisation and SC and DD debt-related costs levelisation). Subject to review and consultation, Phase 2 would be implemented from April 2025.

Appendices

Appendix 1 – SLC modifications

Decision rationale

A1.1 The below table summarises the changes to the SLCs that we will be implementing along with the description and rationale for change.

Table A1.1: Summary of SLC Notifications

SLC paragraph	Change	Description and rationale
Electricity - 28AD.7 Gas - 28AD.6	Addition of a Levelisation Allowance (L) to the maximum charge	The addition of this term allows for a Levelisation Allowance to be added to the benchmark Maximum Charge for each cap period, consumption level (nil/typical), meter type (single rate/multi-register), region and payment method.
Electricity - 28AD.14A Gas -28AD.13A	Levelisation Allowance Definition	This clause provides the definition of the Levelisation Allowance.
Electricity - 28AD.14B Gas -28AD.13B	Levelisation Allowance set to zero	This clause provides the Authority the ability to set the Levelisation Allowance to zero, following a brief consultation, when required via a written statement.
Electricity - 28AD.16 Gas - 28AD.15	Addition of Annex 9	Annex 9 has been added to the list of Annexes that can be amended in writing following a consultation when a significant and unexpected change of circumstance or mathematical error is identified.
Electricity - 28AD.21A Gas -28AD.20A	Addition of Annex 9	Annex 9 has been added to the list of annexes for which the Authority may use to determine revised Benchmark Maximum Charges.
Electricity - 28AD.40 Gas -28AD.33	Addition of definitions	Addition of the Levelisation Allowance, Levelisation Policy descriptions to be used in other clauses.
Electricity - Annex 9 Gas - Annex 9	Addition of the Methodology for Levelisation Allowance annex	Inclusion of a link to the additional Annex which sets out the methodology for the Levelisation Allowance.

A1.2 We have included relevant SLC sections below and the changes we will make. Additions to the existing SLC are shown in red double underline (eg Levelisation Allowance). Deletions to the existing SLC are shown in red strikethrough (eg ~~Levelisation Allowance~~). Changes proposed in our statutory consultation that have now been removed are shown in red highlighted strikethrough text (eg ~~Levelisation Allowance~~). The reasons for removal are provided within paragraphs 6.45 and 6.46.

Standard conditions of electricity supply licence

Calculation of the Benchmark Maximum Charges for 28AD Charge Restriction Periods

28AD.7 For each 28AD Charge Restriction Period, the Authority will calculate the Benchmark Maximum Charge for each:

(a) Benchmark Annual Consumption Level;

(b) Charge Restriction Region;

(c) Benchmark Metering Arrangement; and

(d) Payment Method

in accordance with the following formula:

$$ChargeMax_{i,j,k,l,p} = (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + AA_{i,j,k,l,p} + OC_{j,k,l,p} + PA_{i,j,k,l,p} + E_{i,j,k,l,p} + H_{i,j,k,l,p} + L_{i,j,k,l,p})$$

where (the following units all being in pounds sterling):

$ChargeMax_{i,j,k,l,p}$	means the Benchmark Maximum Charge in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, and Payment Method *p*;
$WC_{i,j,k,l}$	means the Wholesale Cost Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, calculated in accordance with paragraph 28AD.8;
$NC_{i,j,k,l}$	means the Network Cost Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, determined in accordance with paragraph 28AD.9;
$PC_{i,j,k,l}$	means the Policy Cost Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, calculated in accordance with paragraph 28AD.10;
$AA_{i,j,k,l,p}$	means the Adjustment Allowance in Charge Restriction Region *i*, in Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 28AD.10A;

$OC_{j,k,l,p}$ means the Operating Cost Allowance in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 28AD.11;

$PA_{i,j,k,l,p}$ means the Payment Method Adjustment in Charge Restriction Region *i*, in Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 28AD.12;

$E_{i,j,k,l,p}$ means the Earnings Before Interest and Tax Allowance in Charge Restriction Region *i*, in Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p*, calculated in accordance with paragraph 28AD.13;

$H_{i,j,k,l,p}$ means the Headroom Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 28AD.14;

$L_{i,j,k,l,p}$ means the Levelisation Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 28AD.14A.

Levelisation Allowance

28AD.14A For the purposes of 28AD.7, the Levelisation Allowance in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l and for Payment Method p is an adjustment to the amounts paid by customers on different Payment Methods, subject to paragraphs 28AD.14B and 28AD.16, calculated in accordance with the methodology set out in Annex 9.

28AD.14B If the Authority has published a statement in writing to terminate or suspend the Levelisation Policy, following consultation, the value of the Levelisation Allowance is zero.

28AD.16 The Authority may from time to time, and following consultation, amend the methodology set out in Annex 2, Annex 3, Annex 4, Annex 5, Annex 8 or Annex 9 by way of a statement in Writing, where the Authority considers that either:

(a) there has been a significant and unanticipated change of circumstances such that Annex 2, Annex 3, Annex 4, Annex 5 ~~or~~ , Annex 8 or Annex 9 no longer reflects an efficient level of any of the Wholesale Cost Allowance, Network Cost Allowance, Policy Cost Allowance, Smart Metering Net Cost Change ~~or~~ , Adjustment Allowance or Levelisation Allowance; or

(b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4, Annex 5 ~~or~~ , Annex 8 or Annex 9 such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

28AD.21A In the event of exceptional circumstances, and the Authority taking steps set out in paragraph 28AD.16(a) in making amendments to the methodology set out in Annex 2, Annex 3, Annex, 4, Annex 5 or~~,~~ Annex 8, or Annex 9, the Authority may:

(a) determine revised Benchmark Maximum Charges which shall apply for the remainder of a 28AD Charge Restriction Period j (for which the Authority has already published the Benchmark Maximum Charges pursuant to paragraph 28AD.19(c) or paragraph 28AD.21), replacing the Benchmark Maximum Charges previously published from a date specified by the Authority by way of a statement in Writing, by calculating such values in accordance with paragraph 28AD.7;

(b) in so determining the revised Benchmark Maximum Charges which shall apply for the remainder of a 28AD Charge Restriction Period j from the date specified by the Authority pursuant to paragraph 28AD.21A(a), take into account any modification made to SLC 28AD, notwithstanding that any such modification may not have come into effect at the time of publication of the updated Benchmark Maximum Charges in accordance with paragraph 28AD.21(c), provided that any such modification has come into effect by no later than the date specified by the Authority pursuant to paragraph 28AD.21A(a); and

(c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

~~**Obligation to interact with the Levelisation Reconciliation Mechanism**~~

~~28AD.39A The licensee must ensure that it participates in and complies with the terms of the Levelisation Reconciliation Mechanism, including:~~

~~(a) Submission of relevant Verified Data to the Authority and Reconciliation Operator, as required in a timely and accurate manner, and~~

~~(b) Pays into the Reconciliation Mechanism any Levelisation Charges notified to it by the Reconciliation Operator~~

~~**Guidance**~~

~~28AD.39B The Authority may issue, from time to time, guidance for the purposes of paragraphs 28AD.14A and 28AD.39A.~~

Definitions for condition

28AD.40 In this condition:

'Levelisation Allowance' means an amount calculated to adjust the amount paid by customers on different Payment Methods in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l and for Payment Method p. The aforementioned amount would be calculated by the Authority for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 9;

~~**'Levelisation Charges'** means, for the purposes of this condition 28AD, those charges calculated from the Levelisation Allowance for the purposes of levelisation, and notified to the licencee on a monthly basis as calculated by the Reconciliation Operator;~~

'Levelisation Policy' means an adjustment to the cap on Payment Methods derived by the operation of Relevant Maximum Charge in paragraph 28AD.7;

~~**'Levelisation Reconciliation Mechanism'** refers to obligations, processes and/or systems of that name set out, or to be set out, in the Retail Energy Code or such other document designated under standard licence conditions from time to time;~~

~~**'Reconciliation Operator'** means Retail Energy Code Company (RECCo), or other such industry body or bodies, which the Authority has notified the licencee to have been selected, to develop or administer existing and future iterations of the Levelisation Reconciliation Mechanism;~~

~~**'Verified Data'** means data requested by the Authority for the purposes of levelisation and reconciliation which is accompanied by a statement from a named Statutory Director or authorised company officer confirming that they have taken all reasonable steps to satisfy themselves that the return is a true and accurate reflection of the data held by the licensee used for its customer billing purposes. The Authority may share the aforementioned data with the Reconciliation Operator for the purpose of, amongst other things, Levelisation Charge calculations;~~

Annex 9 – Methodology for determining the Levelisation Allowance

.xlsx file available at https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs

Standard conditions of gas supply licence

Calculation of the Benchmark Maximum Charges for 28AD Charge Restriction Periods

28AD.6 For each 28AD Charge Restriction Period, the Authority will calculate the Benchmark Maximum Charge for each:

(a) Benchmark Annual Consumption Level;

(b) Charge Restriction Region; and

(c) Payment Method

in accordance with the following formula:

$$ChargeMax_{i,j,k,p} = (WC_{j,k,p} + NC_{i,j,k,p} + PC_{j,k} + AA_{i,j,k,p} + OC_{j,k,p} + PA_{i,j,k,p} + E_{i,j,k,p} + H_{i,j,k,p}) + L_{i,j,k,l,p}$$

where (the following units all being in pounds sterling):

$ChargeMax_{i,j,k,p}$	means the Benchmark Maximum Charge in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, and Payment Method *p*;
$WC_{j,k,p}$	means the Wholesale Cost Allowance in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for payment method *p*, calculated in accordance with paragraph 28AD.7*;*
$NC_{i,j,k,p}$	means the Network Cost Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for payment method *p*, determined in accordance with paragraph 28AD.8;
$PC_{j,k}$	means the Policy Cost Allowance in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, calculated in accordance with paragraph 28AD.9;
$AA_{i,j,k,p}$	means the Adjustment Allowance in Charge Restriction Region *i*, in Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Payment Method *p* calculated in accordance with paragraph 28AD.10A;
$OC_{j,k,p}$	means the Operating Cost Allowance in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for payment method *p*, calculated in accordance with paragraph 28AD.10;
$PA_{i,j,k,p}$	means the Payment Method Adjustment in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Payment Method *p* calculated in accordance with paragraph 28AD.11;
$E_{i,j,k,p}$	means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Payment Method p, calculated in accordance with paragraph 28AD.12;
$H_{i,j,k,p}$	means the Headroom Allowance in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Payment Method p calculated in accordance with paragraph 28AD.13;
$L_{i,j,k,l,p}$	means the Levelisation Allowance in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual

Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 28AD.13A.

Levelisation Allowance

28AD.13A For the purposes of 28AD.6, the Levelisation Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l and for Payment Method p is an adjustment to the amounts paid by customers on different Payment Methods, subject to paragraphs 28AD.13B and 28AD.15, calculated in accordance with the methodology set out in Annex 9.

28AD.13B If the Authority has published a statement in writing to terminate the Levelisation Policy, following consultation, the value of the Levelisation Allowance is zero.

28AD.15 The Authority may from time to time, and following consultation, amend the methodology set out in Annex 2, Annex 3, Annex 4, Annex 5~~, or~~ Annex 8 or Annex 9 by way of a statement in Writing, where the Authority considers that either:

(a) there has been a significant and unanticipated change of circumstances such that Annex 2, Annex 3, Annex 4, Annex 5~~, or~~ Annex 8 or Annex 9 no longer reflects an efficient level of any of the Wholesale Cost Allowance, Network Cost Allowance, Policy Cost Allowance or Smart Metering Net Cost Change, Adjustment Allowance or Levelisation Allowance; or

(b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4, Annex 5~~, or~~ Annex 8 or Annex 9 such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

28AD.20A In the event of exceptional circumstances, and the Authority taking steps set out in paragraph 28AD.15(a) in making amendments to the methodology set out in Annex 2, Annex 3, Annex, 4, Annex 5, ~~or~~ Annex 8, or Annex 9, the Authority may:

(a) determine revised Benchmark Maximum Charges which shall apply for the remainder of a 28AD Charge Restriction Period j (for which the Authority has already published the Benchmark Maximum Charges pursuant to paragraph 28AD.18(c) or paragraph 28AD.20), replacing the Benchmark Maximum Charges previously published from a date specified by the Authority by way of a statement in Writing, by calculating such values in accordance with paragraph 28AD.6;

(b) in so determining the revised Benchmark Maximum Charges which shall apply for the remainder of a 28AD Charge Restriction Period j from the date specified by the Authority pursuant to paragraph 28AD.20A(a), take into account any modification made to SLC 28AD, notwithstanding that any such modification may not have come into effect at the time of publication of the updated Benchmark Maximum Charges in accordance with paragraph 28AD.20(c), provided that any such modification has come into effect by no later than the date specified by the Authority pursuant to paragraph 28AD.20A(a); and

(c) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

~~Obligation to interact with the Levelisation Reconciliation Mechanism~~

~~28AD.32A The licensee must ensure that it participates in and complies with the terms of the Levelisation Reconciliation Mechanism, including:~~

~~(a) Submission of Verified Data to the Authority and Reconciliation Operator, as required in a timely and accurate manner, and~~

~~(b) Pays into the Reconciliation Mechanism any Levelisation Charges notified to it and on the date specified for payment, by the Reconciliation Operator~~

~~**Guidance**~~

~~28AD.32B The Authority may issue, from time to time, guidance for the purposes of paragraphs 28AD.13A and 28AD.32A~~

Definitions for condition

28AD.33 In this condition:

'Levelisation Allowance' means an amount calculated to adjust the amount paid by customers on different Payment Methods in Charge Restriction Region i, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l* and for Payment Method *p*. The aforementioned amount would be calculated by the Authority for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 9;

~~**'Levelisation Charges'** means, for the purposes of this condition 28AD, those charges calculated from the Levelisation Allowance for the purposes of levelisation, and notified to the licencee on a monthly basis as calculated by the Reconciliation Operator;~~

'Levelisation Policy' means an adjustment to the caps on Payment Methods derived by the operation of Relevant Maximum Charge in paragraph 28AD.7;

~~**'Levelisation Reconciliation Mechanism'** refers to obligations, processes and/or systems of that name set out, or to be set out, in the Retail Energy Code or such other document designated under standard licence conditions from time to time;~~

~~**'Reconciliation Operator'** means Retail Energy Code Company (RECCo), or other such industry body or bodies, which the Authority has notified the licencee to have been selected, to develop or administer existing and future iterations of the Levelisation Reconciliation Mechanism;~~

~~**'Verified Data'** means data requested by the Authority for the purposes of levelisation and reconciliation which is accompanied by a statement from a named Statutory Director or authorised company officer confirming that they have taken all reasonable steps to satisfy themselves that the return is a true and accurate reflection of the data held by the licensee used for its customer billing purposes. The Authority may share the aforementioned data with the Reconciliation Operator for the purpose of, amongst other things, Levelisation Charge calculations;~~

Annex 9 – Methodology for Levelisation Allowance

.xlsx file available at https://www.ofgem.gov.uk/publications/changes-prepayment-meter-standing-charges-and-other-debt-costs

Appendix 2 - Impact Assessment

A2.1 This Appendix sets out the Impact Assessment (IA) for our levelisation approach. It describes our approach and sets out an assessment of the chosen levelisation approach set out in Chapter 3 of this document. All impacts are assessed against a baseline scenario where we exclude the levelisation allowance. The impacts are shown for Phase 1 levelisation (levelisation of PPM and DD Standing Charges and Phase 2 levelisation (levelisation of PPM and DD Standing Charges and SC and DD debt-related costs).

A2.2 This IA includes updated analysis to reflect comments from respondents to our statutory consultation. The two key changes to the IA are as follows:

i) An updated assessment of the impact of levelisation on the FTC market. Most notably, we include an assessment of the potential 'risk premium' that suppliers may price into their fixed term DD contracts

ii) Updated impacts to reflect new data for cap period 12a (1 April to 30 June 2024) and the Tariff and Customer Account RFI for January 2024

A2.3 In other areas of the IA, we have expanded our analysis to address comments raised by respondents.

Summary

A2.4 In light of the cost-of-living crisis, which has placed additional burden on customers' ability to afford their bills, further research on the heightened vulnerability of consumers within PPM and SC payment methods, and analysis presented in this IA, we have decided there is a case for 'levelisation'. This is the process of adjusting costs between payment methods to make charges more equal or equitable but less cost-reflective.

A2.5 Our IA covers our chosen approach to levelisation set out in Chapter 3 of this document. The impacts presented represent an estimate of the annual impacts of levelisation based on the current data we hold. The actual impacts will vary dependent on future price caps and proportions of customers on different payment methods.

A2.6 The results of our analysis are summarised below, and the quantified impacts are set out in Table A2.1. For the quantified impacts set out in Table A2.1 we have included, in parenthesis, the change from our statutory consultation IA.

i. **Income weighted analysis –** We use income-weighted analysis to assess the impact of our levelisation approach on perceived energy costs, specifically on those on low incomes and with other characteristics of vulnerability. This accounts for households' varying marginal utility of income. Phase 1 shows an equity-weighted net saving of £112m and Phase 2 shows an equity-weighted net saving of £223m[51]

ii. **Total debt** – We assess that levels of total debt will decrease as a result of this policy by £12.3m for Phase 1 and £31.9m for Phase 2

iii. **Bad debt and working capital** – We assess that levels of bad debt (which is a proportion of total debt) will decrease as a result of levelisation by £0.4m as a result of Phase 1 and £1.0m as a result of Phase 2. We also assess that the required levels of working capital will decrease by £1.5m as a result of Phase 1, £3.9m as a result of Phase 2, resulting in lower costs to suppliers (and potentially lower costs for consumers if the costs savings are passed on) and improved supplier resiliency and stability, benefiting the market as a whole

iv. **Administration costs** – We assess that the costs associated with implementation will be c.£1.5m for Phase 1 and c.£4.4m for Phase 2. The annual operational costs will be c.£1.6m for Phase 1, c.£3.1m for Phase 2

v. **Competition assessment** – Our updated analysis indicates that there is the potential for negative impacts on competition however these are likely to be negligible overall

vi. **Self-disconnections** – Due to the relatively small savings for PPM consumers and therefore a small associated increase in consumption, the reduction in PPM self-disconnections has been determined to be positive but small

[51] Note that total energy costs remain the same before and after levelisation. Levelisation only affects the distribution of costs across payment types. The equity-weighted analysis demonstrates that post-levelisation, costs are borne to a greater degree by those with higher incomes.

vii. **Health and Wellbeing** –The negligible reduction in self-disconnections means improvements to health and wellbeing as a result of the reduction in self-disconnections are also positive but small

Table A2.1: Quantified impacts of levelisation (changes from statutory consultation in parenthesis)

	Income weighted analysis	Implementation costs	Annual operational Costs	Bad debt reduction	Total debt reduction[52]	Working capital reduction
Phase 1	£112m (-£6m)	c.£1.5m (-)	£1.6m (+£0.8m)	£0.4m (+£0.1m)	£12.3m (+0.1m)	£1.5m (-)
Phase 2	£223m (+£3m)	c.£4.4m (-)	£3.1m (+£0.8m)	£1.0m (+£0.3m)	£31.9m (-£1.6m)	£3.9m (-£0.2m)

A2.7 Levelisation will be supported by a reconciliation mechanism. We note that while some suppliers would likely benefit from levelisation if we were to implement it without a reconciliation mechanism, some suppliers could lose out. In particular, the negative impact on suppliers that specialise in PPM customers would be sufficient to materially affect their business, harm financial resilience and have knock on effects to the market as a whole. We are therefore proceeding with the implementation of a reconciliation mechanism for levelisation.

A2.8 For suppliers with derogated tariffs, we note that there will be an impact on either the supplier or the consumer based on whether the supplier chooses to pass on the additional costs or savings to their consumers. We consider the impact of this to be small.

Our updated analysis continues to highlight that levelisation results in a positive benefits case. These benefits, assessed against not intervening and in the presence of a reconciliation mechanism, are summarised in the tables below.

[52] Positive changes from statutory consultation imply a larger decrease in debt and therefore a larger benefit.

Table A2.2: Summary of levelisation benefits and costs compared against not intervening – Phase 1

Benefits	Costs
• PPM consumers pay £52 less per year PPM consumers will benefit from a larger fall in bills than the equivalent increase in bills for DD customers • Net saving of £112m from income weighted analysis demonstrating positive impact on disproportionately vulnerable PPM cohort • Reduction in bad debt of £0.4m • Reduction in working capital of £1.5m	• DD consumers pay more (£10 per year) negatively impacting more consumers than positively impacting • Additional costs to customers on fixed DD tariffs if suppliers price in a risk premium to cover the variability in levelisation allowances. Note that we expect this cost to be small • Implementation costs of £1.5m - equivalent to 3p per consumer • Operational costs of £1.6m per year – equivalent to 3p per consumer

Table A2.3: Summary of levelisation benefits and costs compared against not intervening – Phase 2

Benefits	Costs
• PPM and SC consumers pay less (£52 and £40 per year respectively) benefiting from a larger fall in bills than the equivalent increase in bills for DD customers • Reduces the DD to SC differential from £116 to £56, increasing the number of tariffs consumers might consider • Net saving of £223m from income weighted analysis demonstrating positive impact on disproportionately vulnerable SC and PPM cohorts • Reduction in bad debt of £1.0m • Reduction in working capital of £3.9m	• DD consumers pay more (£20 per year) negatively impacting more consumers than positively impacting • Additional costs to customers on fixed DD tariffs if suppliers price in a risk premium to cover the variability in levelisation allowances. Note that we expect this cost to be small for Phase 1 and we will re-evaluate the costs of this prior to Phase 2 implementation • Implementation costs of £4.4m - equivalent to 9p per consumer • Operational costs of £3.1m per year – equivalent to 6p per consumer

Scope and approach to this impact assessment

Scope

A2.9 This document assesses the impact of the chosen approach to levelisation set out in Chapter 3, impacts are presented for Phase 1 levelisation (levelisation of PPM and DD Standing Charges) and Phase 2 levelisation (levelisation of PPM and DD Standing Charges and SC and DD debt-related costs). We have assessed other options in the policy and statutory and consultations.

A2.10 This IA covers the impacts on consumers and suppliers as well as an assessment of levelisation on the market as a whole. In addition, we consider the impacts against Ofgem's statutory duties.

A2.11 This IA presents financial impacts to demonstrate the impacts of implementing levelisation without reconciliation (our full rationale for implementing a reconciliation mechanism is set out in Chapter 6). Although our need to consider financeability applies to suppliers generally and provides no guarantee to any particular supplier, we have crossed checked our work by assessing the real impact on suppliers using data from the quarterly supplier Request for Information (RFI) returns. However, since this is confidential, we present supplier impacts against hypothetical suppliers with varying payment method customer bases.

Approach

A2.12 Our approach to this IA is based on Ofgem's current guidance on impact assessments.[53] We are considering the impacts described in **Table A2.4**.

A2.13 The impacts of levelisation are presented relative to the baseline scenario where we do not intervene.

[53] Ofgem (2020), Impact Assessment Guidance. https://www.ofgem.gov.uk/publications/impact-assessment-guidance

Table A2.4: Structure of our updated impact assessment

Category	**Sub-Category**
Impact on consumers	• Direct financial impact on fixed term and standard variable tariff (SVT) consumers • Income weighted distributional impacts • Impacts on vulnerable consumers • Debt impacts
Impact on suppliers	• Direct impact on suppliers' costs • Bad debt and working capital impacts
Impact on competition and innovation	• Impact on price competition • Impact on non-price competition • Impact on market entry and exit • Impact on innovation • Overall conclusions on competition impacts
Wider impacts	• Impact on inflation • Environmental impacts • Security of supply • Public spend • Public Sector Equality Duty (Equalities Act 2010)

Baseline scenario

A2.14 Our baseline scenario against which any impacts of levelisation will be measured, are the published cap levels at Typical Domestic Consumption Value (TDCV) for charge restriction period ("cap period") 12a, from 1 April to 30 June 2024, excluding the newly introduced levelisation allowance.[54] The GB average effective unit rates and standing charges for this cap period are shown below in **Table A2.5**. This IA evaluates the impact of levelisation against this baseline.

[54] The earliest that levelisation will be implemented is 1 April 2024 and therefore the impacts presented will change on a quarterly basis. Phase 1 is relatively unaffected by natural changes to the cap as these are largely driven by wholesale prices which are in the unit rate; Phase 2 will however scale with wholesale, where broadly the benefits are higher as prices increase and vice versa. Both Phases could be affected by future policies.

A2.15 The impacts set out in this IA are indicative based on the most up to date data held by Ofgem. The impacts of levelisation will vary depending on movements in future price caps and the proportion of customers on each payment method.

Table A2.5: Cap period 12a unit rates and standing charges (pre-levelisation)[55]

Fuel Type	Energy Charge Type	DD	PPM	SC
Single Rate Electricity	**Unit Rate (p/kWh)**	24.50	23.72	25.79
Single Rate Electricity	**Standing Charge (£/day)**	0.59	0.66	0.66
Gas	**Unit Rate (p/kWh)**	6.04	5.82	6.36
Gas	**Standing Charge (£/day)**	0.30	0.40	0.35
Multi Register Electricity	**Unit Rate (p/kWh)**	23.19	22.59	24.41
Multi Register Electricity	**Standing Charge (£/day)**	58.87	65.99	65.84

Table A2.6: Cap period 12a cap levels at TDCV (pre-levelisation)

	DD	PPM	SC
Single Rate Electricity (2,700 kWh)	£876	£881	£937
Gas (11,500 kWh)	£803	£814	£860
Dual Fuel	£1,680	£1,695	£1,796
Multi Register Electricity (3,900 kWh)	£1,119	£1,122	£1,192

[55] The cap level is broken down into two components – the unit rate which is based on benchmark consumption (3100kWh) and the standard charge which is based on nil consumption. Suppliers are permitted to choose their own unit rate and standing charge as long as the total amount charged to a customer at benchmark consumption is equal to or below the published cap level.

Summary of quantitative and qualitative assessment

A2.16 The following section outlines the assessments undertaken to identify the related impacts on consumers, suppliers, the market and any other groups or areas that Ofgem should have regard to.

Impacts on consumers

Direct financial impact on fixed and standard variable tariff (SVT) consumers

A2.17 All impacts are assessed against a baseline scenario where we exclude the levelisation allowance.

A2.18 The number of accounts by payment method for single rate and multi-rate tariffs, based on the latest Tariff and Customer Account RFI (January 2024), are shown in **Table A2.7** below.

Table A2.7: Customer accounts by tariff type, fuel type and payment method

Tariff Type	Fuel Type	DD	PPM	SC
Single Rate	Electricity	17,987,412	3,515,011	4,567,135
Single Rate	Gas	16,908,573	3,151,724	4,113,292
Multi-rate	Electricity	2,083,951	492,403	547,932
Single and Multi-rate	Electricity and Gas	36,979,936	7,159,138	9,228,359

3A.1 Based on the customer accounts above, DD is the most popular payment method at 69.3% (+0.6% from Oct '23), followed by SC at 17.3% (-0.3%) and PPM at 13.4% (-0.3%).

Price cap impacts

A2.19 The impacts for cap period 12a are shown in **Table A2.8** below.

Table A2.8: Cap levels and impacts

Fuel Type	Phase 1 DD	Phase 1 PPM	Phase 1 SC	Phase 2 DD	Phase 2 PPM	Phase 2 SC
Single Rate Electricity (2,700 kWh)	£881	£860	£937	£886	£860	£916
Single Rate Electricity Impact	£4	-£22	£0	£10	-£22	-£21
Gas (11,500 kWh)	£809	£784	£860	£814	£784	£840
Gas Impact	£6	-£30	£0	£11	-£30	-£19
Dual Fuel	£1,690	£1,643	£1,796	£1,700	£1,643	£1,756
Impact against baseline	£10	-£52	£0	£20	-£52	-£40
Multi Register Electricity (3,900 kWh)	£1,125	£1,101	£1,192	£1,132	£1,101	£1,166
Multi Register Electricity Impact	£5	-£21	£0	£13	-£21	-£26

A2.20 Under Phase 1, PPM becomes the cheapest payment method (on the basis of a dual fuel TDCV customer), we also see the differential between DD and SC reduce by £10 as a result of increased DD tariffs. Under Phase 2, the differential between DD and SC is reduced to £56.

A2.21 Overall, levelisation is a transfer and therefore the sum of impacts on cap levels should net to zero. The impacts presented above are an average of the regional impacts and therefore these impacts do not net to zero due to rounding. The regional impacts can be found in the Regional Levelisation models published alongside this document. For Phase 2, the consumption values used to calculate impacts will affect the total net consumer impact. This will be further explored when we consult on SC and DD debt-related costs levelisation.

Variation by consumption

A2.22 Since unit rates are affected for Phase 2, there will be a range of impacts depending on consumer consumption levels. The range of impacts for each fuel type (electricity and gas) are presented in **Figure A2.1** and **Figure A2.2** below.

A2.23 For both electricity and gas, the following trends are observed between 0kWh and 4500kWh:

i) The cost impact to DD consumers increases with consumption, from £6 to £12 for electricity and from £7 to £13 for gas

ii) The savings impact to SC consumers increases with consumption, from £4 to £30 for electricity and from £3 to £28 for gas

iii) The savings impact to PPM consumers is the same regardless of consumption

Figure A2.1: Electricity - Impacts by payment method and consumption

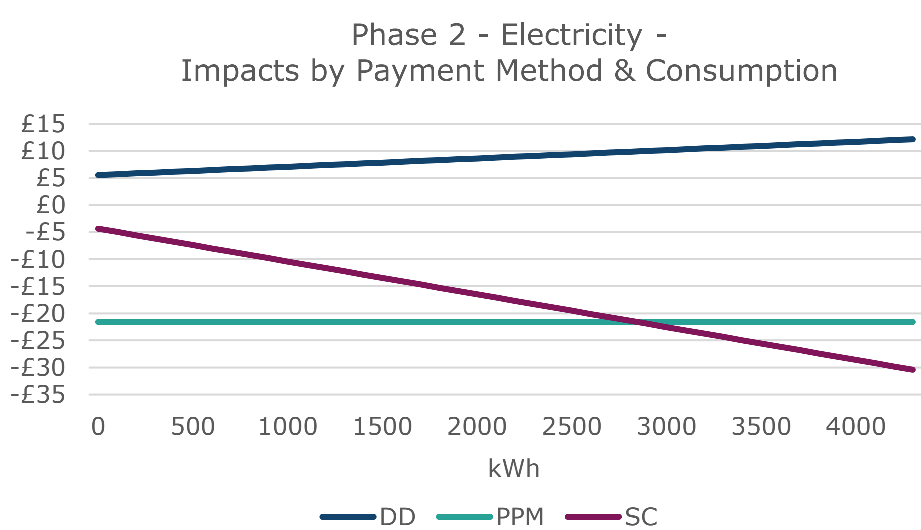
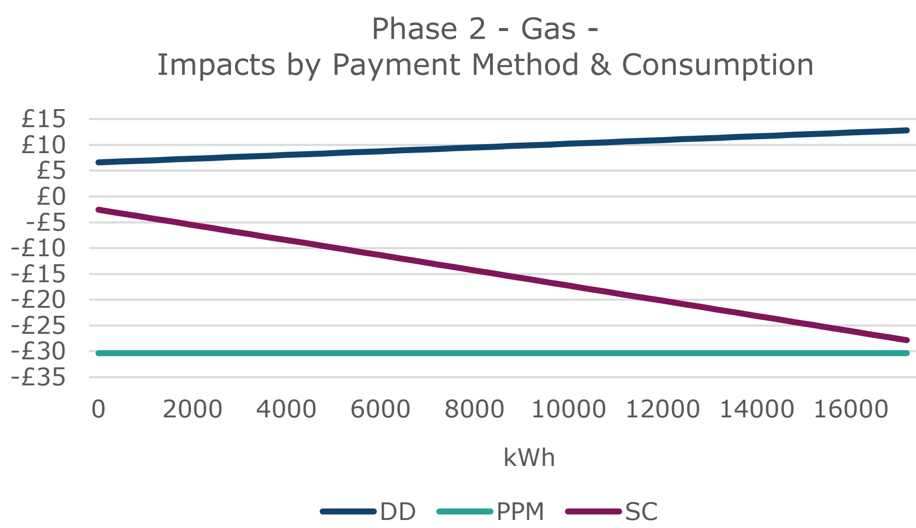


Figure A2.2: Gas - Impacts by payment method and consumption



A2.24 The impacts presented above do not reflect how consumption levels vary by payment method. In reality, consumption will vary between payment methods and therefore impacts will vary. This will be further explored when we consult on SC and DD debt-related costs levelisation.

Variation by cap period

A2.25 The impacts presented above are relative to Cap Period 12a, however impacts will vary by cap level driven by the difference between DD and PPM at nil consumption, the difference between DD and SC debt-related costs, individual payment method consumption values and the payment method proportions of customer accounts. The dual fuel impacts at TDCV for Cap Period 9b to 12a are shown in the table below, impacts are presented for Phase 1 and Phase 2 separately, had they applied during the relevant cap period.

Table A2.9: Impacts by cap period – phase 1

	Jan 23 – Mar 23	Apr 23 – Jun 23	Jul 23 – Sep 23	Oct 23 – Dec 23	Jan 24 – Mar 24	Apr 24 – June 24
	9b	10a	10b	11a	11b	12a
DD - Dual Fuel Cap Levels	£4,288	£3,288	£2,082	£1,845	£1,939	£1,690
PPM - Dual Fuel Cap Levels	£4,316	£3,283	£2,035	£1,807	£1,906	£1,643
SC - Dual Fuel Cap Levels	£4,533	£3,482	£2,211	£1,959	£2,058	£1,796
DD - Unit Rate Impacts	£0	£0	£0	£0	£0	£0
PPM - Unit Rate Impacts	£0	£0	£0	£0	£0	£0
SC - Unit Rate Impacts	£0	£0	£0	£0	£0	£0
DD - Standing Charge Impacts	£9	£8	£8	£11	£11	£10
PPM - Standing Charge Impacts	-£43	-£42	-£42	-£54	-£54	-£52
SC - Standing Charge Impacts	£0	£0	£0	£0	£0	£0

Table A2.10: Impacts by cap period – phase 2

	Jan 23 – Mar 23	Apr 23 – Jun 23	Jul 23 – Sep 23	Oct 23 – Dec 23	Jan 24 – Mar 24	Apr 24 – June 24
	9b	10a	10b	11a	11b	12a
DD - Dual Fuel Cap Levels	£4,314	£3,308	£2,095	£1,856	£1,951	£1,700
PPM - Dual Fuel Cap Levels	£4,316	£3,283	£2,035	£1,807	£1,906	£1,643
SC - Dual Fuel Cap Levels	£4,427	£3,401	£2,160	£1,914	£2,011	£1,756
DD - Unit Rate Impacts	£25	£18	£11	£9	£10	£8
PPM - Unit Rate Impacts	£0	£0	£0	£0	£0	£0
SC - Unit Rate Impacts	-£99	-£74	-£44	-£38	-£40	-£33
DD - Standing Charge Impacts	£10	£10	£10	£13	£13	£12
PPM - Standing Charge Impacts	-£43	-£42	-£42	-£54	-£54	-£52
SC - Standing Charge Impacts	-£7	-£7	-£7	-£7	-£7	-£7

Income-weighted distributional impacts

A2.26 Income-weighted analysis considers how a £1 cost or saving has a different marginal utility depending on income. In weighted analysis, financial benefits for lower income households are given a higher social value than the equivalent benefits for higher income households. Distributional weights have been applied to equivalised household disposable income deciles in line with the Green Book guidance published by HMT.[56]

A2.27 In our statutory consultation, we presented our IA using the updated distributional impacts model which uses more recent data than our last published model (2020 vs. 2017) and refreshed consumer archetypes (derived from the updated data).[57] In our latest model, the number of consumer archetypes has increased from 13 to 24 which not only increases the detail in the descriptions of consumers across the UK, it also benefits the distributional impacts analysis as it allows for smaller variations in the characteristics between archetypes and therefore more nuanced impacts to the different archetypes can be observed. The additional datasets used have also enabled the inclusion of different disability types including mobility, learning difficulty, dexterity, memory, vision, and wheelchair user as well as the inclusion of the number and proportion of GB households in each archetype that have communal heating, different boiler types and smart meters.

A2.28 In this analysis, we have implicitly considered the impact on a subset of vulnerable consumers (specifically those on low incomes), by weighting impacts relative to their household income. We have used Ofgem's consumer archetypes which are described in **Table A2.11** below. The overall impacts above are derived from the unweighted impacts, which are then income-weighted and averaged to produce the impacts listed in **Table A2.12**. The overall impacts represent the sum of the average income weighted impact, multiplied by the number of households within an archetype.

[56] See Annex 3 of HM Treasury (2022), The Green Book. https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020
[57] Ofgem, 2023, Energy consumer architypes update 2023: https://www.ofgem.gov.uk/energy-policy-and-regulation/measuring-impact-our-policy-decisions

Table A2.11: Consumer archetypes

Archetype	Characteristics
A1	Lowest income; mains gas; retired; 75+ years old; single adults; owner-occupied; urban; not early adopters; no internet connection; no degree or higher
A2	Low income; housing association; single adults; 55+ years old; prepayment meter; WHDS eligible; good EPC rating; no degree or higher
A3	Low income; mains gas; retired/unoccupied < 65 years old; prepayment meter; housing association/local authority; disability benefits; mobility disability; CWP eligible; WHDS eligible; good EPC rating; no degree or higher
B4	Low income; electric heating; retired/unoccupied; 65+ years old; purpose-built flats; owner-occupied/housing association; high electricity consumption
B5	Low income; electric/solid fuel/LPG heating; 45+ years old; retired/unoccupied; disability benefits; high electricity consumption
B6	Low income; mains gas; private rented/local authority; 45-74 years old; low gas consumption; early adopters
C7	Lower-middle income; mains gas; purpose-built flats; housing association/local authority; full-time/part-time employed/ 25-54 years old; early adopters; high proportion BAME
C8	Lower middle-income; electric heating; purpose-built flat; private rented/local authority; full-time/part-time employed; 1 child; 25-54; early adopters; high proportion BAME
C9	Lower-middle income; couples/single adult woman; retired; 65+ years old; owner occupied semi-detached/terraced dwellings; average energy consumption; WFP eligible
D10	Lower-middle income; mains gas; disability benefits; mobility and dexterity disability; retired/unoccupied; owner occupied; semi-detached/terraced; 55+ years old; not early adopters; CWP and WFP eligible;
D11	Lower-middle income; low energy consumption; good EPC rating; purpose-built flats; full-time employed; 25-74 years old; early adopters; urban; low scheme eligibility
D12	Lower-middle income; retired 65+; owner occupied; detached; couples; high gas consumption; not early adopters; eligible for WFP; suburbanites
E13	Middle income; <35-54 year old unoccupied/retirees; 1+ children; disability benefits; early adopters; high energy consumption; CWP and WHDS eligible; prepayment meter; hard-pressed living
E14	Middle income earners; 2+ children; 25-54 year olds; full-time/part-time employed; private-rented/owner occupied; urban; early adopters
F15	Middle income; other/electric heating fuel; 2+ children; full-time/self-employed; 25-54 year olds; early adopters; high electricity consumption;
F16	Middle income; electric heating; has degree or higher; purpose-built flats; 16-54 year olds; good EPC rating; full-time employed; couple/single adult man; early adopters
G17	Upper middle income; Oil/Other heating system; unconventional housing; Owner occupied; self-employed; couple/single adult; 45+ year olds; rural; unknown EPC rating
G18	Upper middle income; Other heating fuel; owner occupied; full-time employed/retired 65+; low scheme eligibility
H19	Upper-middle income; oil heating fuel; retired 65+/full-time employed; poor EPC rating; rural; owner-occupied; detached/semi-detached; WFP eligible
H20	Upper-middle income; mains gas; early adopters; 25-54 years old; full-time employed; below average consumption
I21	High income; mains gas; 1 child; full-time employed; 25-54 years old; early adopters; owner-occupied/private rented; semi-detached/terraced; high ECO eligibility
I22	High income; no children; mains gas; highest gas consumption; 45-64 years old; full-time employed; early adopters; has degree or higher
J23	High income; mains gas; 2+ children; 35-54 years old; full-time employed; owner-occupied; semi-detached/terraced; early adopters; urban
J24	Highest earners; 1+ children; oil heating; highest electricity consumption; rural; full-time employed; owner-occupied; poor EPC rating; early adopters

Table A2.12: Income weighted distributional impacts

Archetype	Households (000s) - DD	Households (000s) - PPM	Households (000s) - SC	Average Impact – Phase 1	Average Impact – Phase 2
A1	3905.7	767.2	1302.3	£0.99	-£7.28
A2	3662.1	3589.4	2867.4	-£71.62	-£114.56
A3	3593.7	3924.2	2673.8	-£68.85	-£97.87
B4	4465.5	1206.9	2530.4	-£3.29	-£23.31
B5	2681.6	1193.7	1080.4	-£9.40	-£20.58
B6	4474.7	3377.4	2243.0	-£42.56	-£54.73
C7	2693.0	2979.0	1849.1	-£34.80	-£51.19
C8	1144.0	782.1	591.1	-£10.12	-£20.06
C9	25475.7	1230.4	8021.6	£21.71	£13.29
D10	8672.2	1118.4	1153.9	£5.69	£12.91
D11	7556.7	2154.5	2957.0	-£5.66	-£14.23
D12	12403.8	30.4	0.0	£15.98	£37.35
E13	3420.7	2715.9	1067.0	-£17.04	-£18.61
E14	6314.2	3585.4	2861.1	-£12.94	-£20.32
F15	1841.2	836.8	804.1	-£3.90	-£9.26
F16	6765.4	1012.6	2695.4	£1.03	-£2.81
G17	1063.1	108.0	745.5	£2.10	-£13.95
G18	4933.8	549.5	1011.1	£2.20	£4.37
H19	5349.2	107.3	1001.9	£5.07	£7.71
H20	27299.9	2217.5	3516.3	£4.24	£7.54
I21	15936.1	2561.3	2779.7	£1.22	£4.17
I22	14705.6	95.3	1534.7	£6.98	£13.67
J23	16154.9	206.0	1100.5	£5.95	£12.46
J24	1661.2	31.9	883.7	£1.53	-£4.16

A2.29 For Phase 1, the analysis shows a large net benefit to the majority of customers in the low to lower-middle income archetypes (A1 to D12), with a net cost to the majority of middle, upper-middle and high income archetypes (E13 to J24). The analysis overall demonstrates a net income-weighted saving to customers as a whole of c.£112m, indicating that overall costs are transferred to those with higher incomes. For Phase 2, our distributional analysis demonstrates a net income-weighted saving of c.£223m.[58]

Debt impacts

A2.30 We have also considered the impact of levelisation on consumer debt volumes by assessing the impact changing consumer bills may have on existing consumer debt, by payment method. We define debt as money owed, with or without a repayment plan, for greater than 91 days. Our assessment is based on debt levels across all domestic consumers from Q3 2023.[59]

A2.31 Our assessment on the impact of levelisation on consumer debt only considers those consumers already in debt and therefore does not account for those consumers who are currently not in debt. Despite this, we do not expect levelisation to result in materially more consumers getting into debt. This is due to a number of factors including:

- i) The additional cost to DD consumers is relatively small compared to the size of the overall bill. Based on our analysis DD customers' bills will increase by c.£20 for Phase 2 (around £1.67 per month)
- ii) DD consumers account for only around 23% of total debt
- iii) DD customers are more likely to be engaged customers and suppliers can adjust the DD payment if customer debt does start to build

A2.32 In addition, those DD customers that do fall into debt can be offered alternative payment methods to repay their debt, and these alternatives are now cheaper as a result of levelisation. We do however recognise that alternative payment methods may not be appropriate for a small number of DD customers, particularly those with high risk needs such as where a customer requires a continuous supply for medical reasons. Our customer research estimates that around 6% of all DD customers have high risk needs with around 0.8% of all DD customers classified as high risk and currently struggling with any general household bill.

A2.33 Our approach to assessing the debt impacts on those customers already in debt has been to identify the number of consumers in debt under each payment method and then multiply by the levelisation impacts for each payment method.

[58] The consumer archetypes have been updated since our statutory consultation and therefore the results of the income weighted analysis have impacted. Details of these updates can be found in Appendix 5.
[59] Ofgem (2023), Debt and arrears indicators. https://www.ofgem.gov.uk/publications/debt-and-arrears-indicators

A2.34 For those consumers that are already in debt and will be paying more (ie DD customers), we assumed the entirety of the additional cost would contribute towards the total amount of debt. Our analysis found that levelisation would lead to an increase in DD customer debt of £7.4m for Phase 1 and £14.6m for Phase 2.

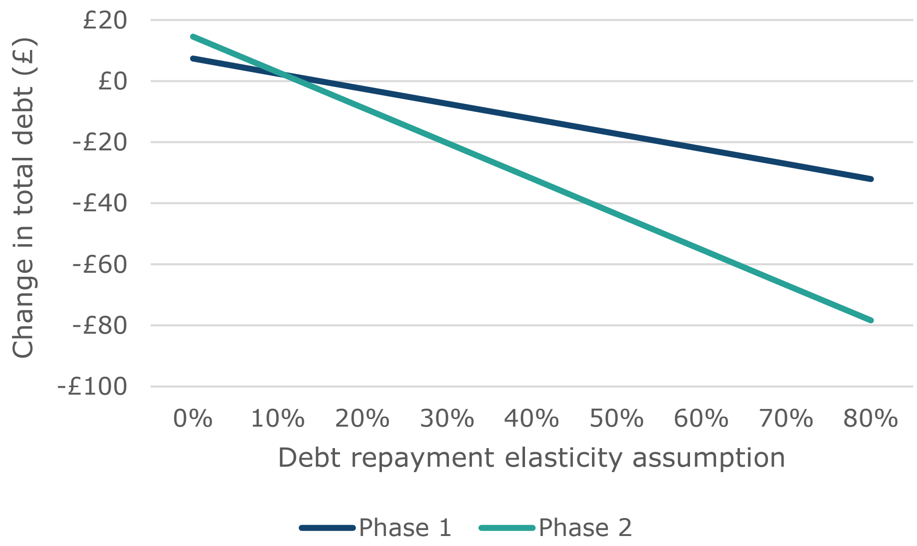
A2.35 For those consumers paying less due to levelisation, we calculated an elasticity of debt repayment and assumed that only a portion of any savings would contribute towards reducing the total amount of debt. In order to estimate the elasticity, we collected data on Household Debt Inequalities from the Office of National Statistic (ONS).[60] This gave us descriptive statistics on the proportion of people with debts, going from no debt and arrears-only to 4 major types of debt. For this IA, we have assumed people in arrears-only would dedicate 80% of their additional income to repay energy arrears. On the other side of the spectrum, we assumed that people with four major types of debt would dedicate only 10% of their additional income to repay their energy debt. Our central assumption for this IA is that, on average, customers in debt would dedicate 40% of their savings from levelisation to repay their energy debt.

A2.36 Under the assumption of a 40% debt payment elasticity, our analysis shows a per year decrease in PPM debt of £19.7m. Overall, for Phase 2 we find that debt falls by £46.4m for PPM and SC customers, with an overall reduction in debt of £31.0m once the impact on DD customers is taken into account.

A2.37 We have presented a range of estimates in **Figure A2.3** below that demonstrate the impact of different assumptions of the elasticity of debt repayment on the overall impact on debt.

[60] Office for National Statistics (2016), Household Debt Inequalities: Wealth in Great Britain, July 2012 to June 2014, Table 16.
https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/debt/articles/householddebtinequalities/2016-04-04

Figure A2.3: Changes in total debt levels at different repayment elasticities



A2.38 Overall, the central estimate shows that levelisation would decrease total debt over a 12-month period by £12.3m for Phase 1 and an overall decrease in debt of £31.9m for Phase 2 in total. Total debt should decrease if the elasticity of debt repayment is above c.15%.

A2.39 As described within the supplier impacts section below, we have assumed that a decrease in overall debt should result in a proportional decrease in bad debt. Suppliers should also recover more debt and so reduce their working capital needs, which is a benefit that should be passed through to all consumers.

Impact on vulnerable consumers

Disability

A2.40 Ofgem's latest consumer research[61] has shown that 44% (3.2m customer accounts) of PPM consumers, 33% (3.0m customer accounts) of SC consumers and 29% (10.7m customer accounts) of DD consumers have a long-term disability or illness in the household.

Pensionable Age

A2.41 Ofgem's latest consumer research has shown that 31% (11.4m customer accounts) of DD consumers are of pensionable age. This is compared with 17%

[61] Consumer Impacts of Market Conditions (CIM) survey W4. https://www.ofgem.gov.uk/publications/consumer-impacts-market-conditions-survey-wave-4-july-2023

(1.6m customer accounts) of SC consumers and 11% (0.8m customer accounts) of PPM consumers.

Low Income

A2.42 Ofgem's latest consumer research has shown that 64% (4.6m customer accounts) of PPM consumers and 51% (4.7m customer accounts) of SC consumers have a household income of less than £30,000. This is compared with 41% (15.1m customer accounts) of DD consumers.

Rurality

A2.43 Ofgem's latest consumer research has shown that DD consumers make up the largest proportion of rural consumers – 83%, whilst PPM consumers account for 10% and SC consumers account for 7%.

Vulnerable consumers – overall

A2.44 The consumer research presented above shows that for all, barring rurality, there are larger proportions of PPM or SC consumers that exhibit one (or more) of the vulnerability characteristics. However, we do note that due to the size of the DD customer base, we do see more DD customers exhibiting vulnerability characteristics. Based on assessment using the latest data, and for cap period 12a levelisation introduces savings for PPM and SC customers at the expense of DD consumers, but we note that the savings for PPM and SC customers is much larger than the increase in cost for DD customers.

Self-disconnections, health, and well-being

A2.45 'Self-disconnection' is defined as an interruption to electricity or gas supply by consumers on PPMs because of a lack of credit on the meter or account. Phase 1 results in an approximate £50 reduction in cost to PPM consumers. Our original hypothesis was that this additional £50 would be used to increase energy consumption and therefore PPM consumers would be less at risk of self-disconnecting. This would occur, for example, if a household budgeted a fixed amount to be spent on energy bills. This would translate into a reduction in self-disconnections. This impact is likely to be greater for those with lower demand as they will receive a greater proportional benefit from levelisation.

A2.46 However, we appreciate that consumers may spend their savings on other goods and services apart from energy. To test this hypothesis, we identified an appropriate income elasticity of electricity demand[62] and applied that to the £50 reduction in cost to understand the change in PPM consumers energy consumption. The results of this assessment were that PPM consumers would only increase their consumption by a few kWh, a very small and almost negligible change. For this reason, we have concluded that levelisation will have a positive but small impact on self-disconnections.

A2.47 Further to the assessment above, we also hypothesised that, due to a reduction in self-disconnections, there would be an increase in health and wellbeing among PPM consumers from levelisation. Given the assessment into self-disconnections has shown a small positive effect, the same is true for health and wellbeing.

Cost-benefit analysis

A2.48 The design of this policy is such that the gains for PPM and SC customers would be covered by DD customers. Therefore, the direct savings of these proposals in the first two tariff types are offset by increases in cost in the latter. However, there are some small additional benefits from increased consumption and health benefits from PPM customers who tend to be on lower incomes and experience higher levels of vulnerability.

A2.49 Although the impact of these changes is small, we also found that there are significant distributional benefits associated with these proposals. On a per customer basis, the cost increase is much smaller than the benefits. For Phase 2, a typical DD customer should experience an increase of £20 in energy bill, a consumer in a PPM tariff should experience a reduction of £52 and standard credit £40. Using Ofgem's consumer archetypes, we found that the net income-weighted distributional impact would be approximately £112m for Phase 1 and £223m for Phase 2. It is important to note that this is only after financial benefits for lower income households are given a greater weighting than the equivalent benefits for higher income households and does not represent a net reduction in consumer bills.

A2.50 Finally, a reduction in the energy bill for PPM and SC consumers would reduce bad debt by £0.4m for Phase 1 and £1.0m for Phase 2. This results in a reduction in working capital of £1.5m per year for Phase 1 and £3.9m for Phase

[62] An estimated elasticity of 0.14 was taken from "Estimating income and price elasticities of residential electricity demand with Autometrics", Pellini, E., Energy Economics, vol. 101(C), 2021.

2. This would offset the administration costs of the policy, including the implementation of a reconciliation mechanism.

A2.51 In conclusion, since levelisation results in transfers between consumers, we found relatively small net benefits related to changes in consumer debt, bad debt, working capital and self-disconnections, however collectively these elements sum to a meaningful impact. Suppliers’ impacts could be passed through to consumers by offsetting the administration costs. In addition to the direct costs and benefits, there is a much more significant positive distributional impact from levelisation.

Impacts on suppliers

Direct impact on suppliers without a reconciliation mechanism

A2.52 We are supporting levelisation with a supplier reconciliation mechanism whereby the revenue impacts introduced as a result of levelisation net to zero (or as close to zero as is possible). The reconciliation mechanism should be neutral on the ability of a notional supplier to secure investment for its business as the position following reconciliation should not change.

A2.53 We have modelled the approximate impact on a range of actual suppliers in the absence of a reconciliation mechanism using data from the quarterly supplier RFI returns. There is a large range of percentage change impacts on supplier Earnings Before Interest and Taxes (EBIT), from +2.7% to -3.4%, which could have significant knock-on impacts to the profitability and resilience of suppliers with different business models and therefore competition within the market from specialist suppliers. This forms the basis for proceeding with a reconciliation mechanism alongside levelisation, but for the purposes of this IA, we have presented four non-confidential hypothetical suppliers, each with a different ratio of DD, PPM and SC consumers to illustrate the supplier revenue impacts. For our analysis, we have assumed that each hypothetical supplier has 1 million consumers and the number of consumers on DD, PPM and SC will vary for each supplier depending on the applied payment method proportions.

A2.54 In order to calculate the revenue impact, we calculate the revenue associated with our baseline of not intervening with levelisation. We then calculate the revenue impact associated with Phase 1 and Phase 2 and calculate the difference relative to the baseline revenue.

A2.55 The impacts of levelisation on our hypothetical suppliers are presented below in **Table A2.13**.

Table A2.13: Hypothetical supplier revenue impacts without a reconciliation mechanism

	DD	PPM	SC	Phase 1 revenue impact	Phase 1 percentage change	Phase 2 Revenue Impact	Phase 2 percentage change
1	33%	33%	33%	-£13.9m	-0.8%	-£23.9m	-1.4%
2	90%	5%	5%	£6.7m	0.4%	£13.8m	0.8%
3	5%	90%	5%	-£46.2m	-2.7%	-£47.8m	-2.8%
4	5%	5%	90%	-£2.1m	-0.1%	-£37.8m	-2.1%

A2.56 To conclude, our assessment of the impact on suppliers without a reconciliation mechanism has shown that for those suppliers with a large PPM consumer base the impact on revenue, and by association profit or loss, would be significant and therefore, in order to ensure the potential for specialist suppliers, a reconciliation mechanism to support levelisation is required. We also hypothesise that by introducing a reconciliation mechanism, we will be protecting market innovation by ensuring specialist suppliers can continue to operate.

Direct impact on suppliers' costs

A2.57 We expect supplier administration costs to increase as a result of levelisation. The exact cost is associated with the design and implementation of the reconciliation mechanism and any ongoing monitoring and support.

A2.58 The implementation costs per year (including industry body, supplier and Ofgem costs) associated with levelisation are likely to be between 3p for Phase 1 and 9p for Phase 2 per consumer and therefore these costs can be considered immaterial compared to current costs to consumers.

A2.59 Other impacts on supplier costs are unclear. We expect the primary impact to result from differences in suppliers' consumer base payment method split.

A2.60 There will also be ongoing costs associated with the reconciliation mechanism, which will be administered by an existing industry party. The rough order-of-magnitude cost estimates for implementation and ongoing support are shown in **Table A2.14** and **Table A2.15** below.

Table A2.14: Cost estimations for reconciliation mechanism implementation

Phase	Industry Body Costs	Supplier Costs (Ofgem Estimates)	Ofgem Costs	Total	Cost per Consumer
Phase 1	£0.7m	£0.4m	£0.4m	£1.5m	£0.03
Phase 2	£2.0m	£1.6m	£0.8m	£4.4m	£0.09

Table A2.15: Annual cost estimations for reconciliation mechanism ongoing support

Phase	Industry Body Costs	Supplier Costs (Ofgem Estimates)	Ofgem Costs	Total	Cost per Consumer
Phase 1	£0.3m	£0.8m	£0.5m	£1.6m	£0.03
Phase 2	£1.1m	£1.4m	£0.6m	£3.1m	£0.06

Bad debt and working capital impacts

A2.61 As stated above in the Consumer Impacts section, the impact of levelisation on consumer debt is an overall reduction. We expect that reducing overall consumer debt will have the knock-on benefit of reducing bad debt, which we define as debt on energy bills that cannot be recovered and is ultimately written off by energy suppliers and which accounts for approximately 3%[63] of all debt. It is possible, however, that the marginal impact may be greater from a further increase in debt. The annual reduction in bad debt would be £0.4m for Phase 1 and £1.0m for Phase 2.

A2.62 By reducing bad debt, there is also likely to be a reduction in bad debt administration costs (the cost associated with recovering debt before it is written off to bad debt). Using data from the debt-related costs RFI, we estimate that debt-related administration costs are equivalent to 10.3% of total bad debt. Therefore, we estimate that bad debt administration costs would be reduced by £0.04m for Phase 1 and £0.1m for Phase 2.

A2.63 In addition to reducing bad debt, an overall reduction in total debt reduces suppliers' working capital costs.

[63] We estimated the long-term relation between total debt and bad debt by taking a 12-month moving average between Oct '22 and Sep '23 of the ratio of both trends from Ofgem's retail monitoring stats which resulted in a ratio of 3%.

A2.64 In order to calculate the working capital impact, we start with the total debt reduction and apply a cost of capital (12.3%[64]).

A2.65 The annual reduction in working capital costs is £1.5m for Phase 1 and £3.9m for Phase 2. Summing the bad debt, bad debt admin and working capital impacts gives the overall annual impact across the market of £1.9m for Phase 1 and £5.0m for Phase 2.

Impact on competition and innovation

A2.66 This section sets out our competition assessment. We have updated the sections below to reflect stakeholder feedback we received to the statutory consultation. In particular, we make some clarifications to the following sections:

i) Impact on price competition

ii) Impact on fixed term tariffs

iii) Impact on market entry and exit

A2.67 Some respondents raised the point that a risk premium would need to be added to fixed term DD contracts to cover the variability of any levelisation allowance the supplier was required to contribute to the reconciliation mechanism. Our assessment of this is covered in the sections below. Whilst we agree with the views expressed by respondents that, for some fixed term DD customers, there may be an extra cost above the levelisation allowance for Phase 1, we do not consider this additional impact to be significant enough to be detrimental to competition or outweigh the benefits of levelisation (further detail is available in the sections below). With regards to Phase 2, we note that there is potentially a higher level of volatility, as noted in Chapter 6 we will consider options to reduce the uncertainty of the levelisation rates and therefore the risk premiums that would need to be applied to FTCs.

Impact on price competition

A2.68 It is possible that our approach to levelisation could have a positive impact on competition insofar as it widens the pool of potential tariff types that a consumer may consider affordable.[65] In particular, a consumer may consider SC

[64]Ofgem (2023), Amending price cap methodology for Earnings Before Interest and Tax (EBIT) allowance decision. https://www.ofgem.gov.uk/publications/amending-price-cap-methodology-earnings-interest-and-tax-ebit-allowance-decision

[65] We do however note that PPM is not a suitable payment method for all customers and that price is not a key driver for payment method choice so the cohort able/likely to take advantage of this opportunity is likely to be small.

and PPM tariffs that they would not otherwise be willing or able to pay for. However, we do not expect this effect to be large. This is because the impact of levelisation on bills is small as a proportion of the total bill paid. For example, the impact for a TDCV PPM consumer is 3% of their annual bill under Phase 1 and 2. Given the latest evidence on switching frequencies in the energy sector[66] (which show that switching is relatively inelastic), we consider the bill impact of levelisation is unlikely to drive material volumes of switching between different tariff types.

A2.69 Levelising prices across SC and DD tariffs may lead to a reduction in price-related competition across different payment methods, as tariff differentials are minimised, prices converge and price competition itself is lessened. However, the extent to which levelisation could have a negative impact on price competition, in practice, depends on the extent to which the different payment methods acted to constrain each other in the first place. This, in turn, depends in part on the extent to which consumers view different payment methods as close substitutes.

A2.70 Qualitatively, the different payment methods have different product characteristics with DD viewed as the most convenient payment method. In contrast, PPM and SC methods may provide an easier way for consumers to budget and manage their expenditure. The fact that a price differential of 7% exists and has been maintained between payment methods, may be an indicator of a lack of substitutability between payment methods and suggest consumers do not view the products as close substitutes.

A2.71 Some responses to our consultation suggested that these changes could introduce incentives for customer switching between payment methods. We have assessed the likelihood of switching between payment methods using historical data on switching. We have analysed, more than 7 million voluntary switches from 2015 to 2023 using data from price comparison websites.[67] The vast majority of switches takes place within payment method. When changes take place, it is normally a move from PPM or SC to DD. Of all the switches, only 0.18%, moved from DD to SC or PPM. This strongly supports our view that consumers do not view payment methods as close substitutes.

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[66] "Estimating income and price elasticities of residential electricity demand with Autometrics", Pellini, E., Energy Economics, vol. 101(C), 2021.
[67] "uSwitch (2022) historic switching data 2016 - 2021". Unpublished confidential document.

Table A2.16. Switching frequency between payment methods

Payment Method	Frequency	Switches: Proportion of all switches	Switches: Proportion of own switches	Switches: Proportion of own switches after Sep 2021
From DD to PPM	13,434	0.18%	0.21%	0.33%
From DD to SC	7,583	0.10%	0.12%	0.06%
From DD to DD	6,383,523	86.45%	99.67%	99.62%
From SC to PPM	22,949	0.31%	3.54%	1.72%
From SC to DD	563,292	7.63%	86.92%	92.80%
From SC to SC	61,825	0.84%	9.54%	5.47%
From PPM to DD	85,112	1.15%	25.68%	7.46%
From PPM to SC	3,172	0.04%	0.96%	0.07%
From PPM to PPM	243,209	3.29%	73.37%	92.48%

A2.72 Table A2.16 above analyses over 7 million switches from January 2015 to June 2023. It shows the percentage of all switches between payment methods as well as the percentage of switches in each payment method (to account for the much smaller number of switches from customers in SC and PPM methods).

A2.73 If we look at historical switches, we can see that the majority of switches (86.45%) took place within DD. Only 0.28% moved from DD to other payment methods. Even after September 2021, when most tariffs converged to the price cap, switches from DD to other payment methods only accounted for 0.33% of all switches. We do not consider that payment methods are direct substitutes, and even after the effect of levelisation, we consider the amount of switching away from DD should be minimal given the low rate of switching we have seen from DD historically.

A2.74 We also show the proportion of own switches between payment methods. This has the same number of switches in the numerator, but in the denominator, instead of all switches, we account for switching in each category (ie the sum of switches from DD, SC, and PPM respectively). For example, there were 331,493 switches from PPM methods. Seventy-three percent of those switches were from PPM to PPM. Historically, most switches have gone to DD payment methods, including switches after September 2021.

A2.75 Finally, while there was a price differential between SC and PPM of around £10 (a similar amount of the current price difference introduced by levelisation), the number of switches between these categories is negligible.

A2.76 Given the lack of substitutability between payment methods and the current level of price differences, we do not expect that the introduction of levelisation would have a meaningful impact on switching and therefore price competition. This evidence strongly supports our view that consumers do not view payment methods as close substitutes.

Impact on non-price competition

A2.77 We do not expect there to be significant impacts on non-price competition as a result of Phase 1. To the extent that levelisation does result in a reduction in price-related competition across different payment methods as a result of Phase 2, this may lead to an enhanced emphasis on non-price related parameters of competition such as consumer service parameters (eg ease of contact, ease of managing bills and ease of making payments). Suppliers may develop their consumer service offerings in response to try to compete for consumers who prefer a particular payment mechanism and may seek to differentiate their product offering in this way.

Impact on FTC market

A2.78 In January 2024, approximately 10% of total customer tariffs were fixed but we expect this to change as the market stabilises. At the moment, competition in the market is slowly recovering and seems to focus on qualitative aspects such as offering innovative tariffs to suit customer’s needs (such as green energy or tariffs designed for high electricity users) and good customer service.

A2.79 As competition will likely increase through efforts to capture new customers, our proposal includes a reconciliation mechanism accounting for both fixed and SVT tariffs, which is needed for levelisation to work. Without a reconciliation mechanism that includes both fixed and SVT tariffs, there could be competitive distortions in the market (eg suppliers trying to game differences in the distribution of payment methods and tariffs with other suppliers). Under our levelisation approach and reconciliation mechanism, suppliers will be required to transfer an amount of money through the reconciliation mechanism dependent on the proportion of their DD tariffs (including fixed DD tariffs). When suppliers design new tariffs, they may need to account for the additional risk created by the reconciliation charge.

A2.80 In response to our statutory consultation, two supplier raised a concern about the impact of levelisation in the fixed term tariff market. They noted that there is an additional risk that suppliers of fixed term DD tariffs may need to take account of the short run risk of the levelisation allowance. The risk arises as levelisation allowances are likely to vary over the length of an FTC. To the extent this is non-forecastable, the supplier said that this implies a risk premium would need to be added to fixed DD contracts.

A2.81 To understand suppliers' concerns around the volatility in levelisation allowances further, we have examined the variation in the levelisation allowances for DD customers since January 2023. We have used this analysis as a proxy to understand the degree of risk that a supplier might face from varying levelisation allowances. The variation in DD levelisation allowances is set out in **Table A2.17** below. We find that for Phase 1 levelisation there is very little variation over the period, however, when considering the joint impacts of Phase 1 and 2, allowances vary to a much greater extent.

Table A2.17: Variation in levelisation allowances for DD customers (dual fuel, TDCV)

	Jan 2023 - Mar 2023 9b	**Apr 2023 - Jun 2023 10a**	**Jul 2023 - Sept 2023 10b**	**Oct 2023 - Dec 2023 11a**	**Jan 2024 - Mar 2024 11b**	**Apr 2024 – Jun 2024 12a**	**DD Variation over period**
Phase 1	£8.54	£8.38	£8.38	£10.78	£10.77	£10.39	**£2.40**
Phase 2	£33.69	£27.64	£20.55	£21.48	£21.98	£20.44	**£14.51**

A2.82 The observed variation in the levelisation allowance for DD customers of up to c.£14 may lead some suppliers to price into their contracts a level of risk premium to cover the eventuality that the allowances change over the duration of the contract. We do however note that the volatility observed in the table above occurred in a period of time where the price cap saw high levels of volatility. Over the same period, the cap level fell more than 50% from its January 2023 level.

A2.83 For the purposes of our IA, we have assumed that suppliers will need to add some additional cost of capital associated with the levelisation allowance uncertainty onto their fixed term tariff cost. Given the low level of variation observed in the DD levelisation allowances for Phase 1, we expect any risk premium associated with this to be relatively small. We therefore do not consider any risk premium added to fixed DD contracts to account for variability in allowances for Phase 1 to be significant enough to distort the market (we note the impacts on market entry and exit and innovation below). In addition, for Phase 1, we do not think that including FTCs in the reconciliation mechanism will have a material impact on supplier financeability due to the small impact on pricing which should not impact a supplier's net position.

A2.84 In a recent analysis as part of the work regarding the Ban on Acquisition Tariffs, we found that a £10 increase in tariff differential (between gaining and losing supplier) is associated approximately with a 3 to 3.6% increase in switching. As we expect the additional cost of capital to be much lower than £10, the impact on FTC switching would be negative but negligible.

A2.85 Additionally, given the price differential we observe in the market, we do not consider the pricing of a risk premium due to Phase 1 levelisation would be a significant barrier to competition in the FTC market. We have seen evidence of suppliers pricing FTCs above the cap, which is evidence of the lack of substitutability of tariff type.

Impact on market entry and exit

A2.86 Some responses indicated that an increase in DD cost as a result of levelisation could deter entry to the market and affect competition in the absence of a fixed DD tariff market. Some suggested the impact of levelisation could affect the financeability of likely entrants.

A2.87 As noted in the section above, we do not expect Phase 1 to have significant impacts on the fixed DD tariff market and Phase 2 is subject to further consultation. We therefore do not expect levelisation to result in significant impacts on market entry and exit.

A2.88 To the extent that levelisation ultimately represents an increased cost for suppliers, it could deter entry to (or investment in) the market or precipitate exit from the market for participants on the margin of profitability. This relative price effect could give rise to potential competition effects in the case of new entrants or challenger brands that have a larger proportion of fixed term tariff (and therefore DD tariff) consumers and a relatively limited back book of SVT consumers, compared to the more established and incumbent suppliers. As noted in the paragraphs above, however, the asymmetric impact on tariffs for challenger suppliers is not expected to be large due to the relatively small impact of levelisation as a proportion of consumers' annual energy bills as well as the reconciliation mechanism.

A2.89 Our assessment of levelisation on market entry has identified the impact of levelisation on market entry to be immaterial.

Impact on innovation

A2.90 As described with non-price parameters of competition, to the extent that levelisation does result in a reduction in price-related competition across different payment methods under Phase 1 or 2, this may lead to an enhanced emphasis on other parameters of competition. This may include innovation in how products are provided, for example with respect to consumer service platforms and consumer contact channels.

A2.91 One supplier was concerned that levelisation could disincentivise suppliers from installing smart PPMs by enabling cost recovery of traditional PPMs infrastructure. There already exists an incentive to suppliers to install smart PPM over traditional; levelisation does not impact on this existing incentive and therefore we do not agree that levelisation disincentivises the installation of smart PPMs.

A2.92 In fact, levelisation may support innovation through promoting the uptake of smart meters. Although we do not expect these options to drive material volumes of switching between different tariff types, switching to PPM would be most likely since PPM would be consistently the cheapest payment method available. As well as the capital requirement advantages already discussed, this could support the uptake of smart meters as the majority of new PPM installations are via smart meters (although we do not expect this impact to be significant).

Overall conclusions on competition impacts

A2.93 Our analysis set out in this section shows that while there are theoretical negative impacts on competition that may arise from Phase 1 of levelisation, we do not expect these to have a material impact on competition. We recognise that there are potentially more significant impacts for the FTC market resulting from Phase 2. This will be considered as part of our consultation for SC and DD debt-related costs levelisation. Owing to the very small impact on annual bills, we do not expect levelisation to impact price competition in the market.

Risks, assumptions, and limitations

Risks

A2.94 The consumer impacts calculated in this IA are based on TDCVs and therefore will vary based on actual consumption values.

Assumptions

A2.95 We have assumed that the impacts within payment method groups are based on current TDCVs – 2,700kWh for single rate electricity, 3,900kWh for a multi register electricity and 11,500kWh for gas.

Limitations

A2.96 All impacts set out in this IA are estimates of the annual impacts based on data from price cap period 12a. Actual costs and benefits will vary depending on future cap levels.

A2.97 The vulnerability data we have used as part of this IA does not give a complete picture of vulnerability across the population. We have been able to interrogate vulnerability characteristics in isolation including, but not limited to, low income, disabled, rurality and pensionable age. However, this does not allow for a holistic assessment of the impacts of levelisation on the vulnerable population as a whole.

A2.98 In assessing the consumer impacts of levelisation, we have focused on the effects on individuals' finances, in particular additional expenditure, or savings as a result of levelisation. The impacts of levelisation are heavily dependent on the baseline cap levels – our analysis is based on the price cap levels for cap period 12a.

Wider impacts

Impact on inflation

A2.99 Our assessment into the impact of levelisation on inflation is that levelisation will have no material impact on inflation.

Environmental impacts

A2.100 As stated previously, the relatively small monetary impacts, combined with low-income elasticities of demand, mean there is unlikely to be a material impact on consumption. We therefore do not foresee any environmental impacts associated with levelisation.

Supplier resilience

A2.101 Levelisation can help in improving suppliers financeability as it reduces total debt, bad debt and supplier working capital which results in marginal improvements on supplier resiliency.

Public spend

A2.102 We are required to exercise our functions under the Domestic Gas and Electricity (Tariff Cap) Act 2018 with a primary focus on protecting consumers on default tariffs, while having regard to specified considerations (see s. 1(6) of that Act). Following the introduction of the Energy Prices Act 2022, those specified considerations include 'the need to set the cap at a level that takes account of the impact of the cap on public spending'. This consideration reflects the fact that, while the Government's Energy Price Guarantee (EPG) is in force, the cap level affects the levels of payments by the government to energy suppliers. Given that the EPG scheme ends prior to the introduction of the levelisation policy,[68] we have assessed the impact to this as nil.

Public sector equality duty (Equalities Act 2010)

A2.103 Ofgem has a legal duty to consider the impact of our policies on people with protected characteristics under the Public Sector Equality Duty (PSED). The main objective of the PSED is to:

[68] The EPG scheme ends on 31 March 2024 and is not expected to be needed after this date, see: https://commonslibrary.parliament.uk/research-briefings/cbp-9714/

i) Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

iii) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

A2.104 Our assessment is that the main objective of this policy overlaps with the PSED for the following portrayed characteristics: age and disability. Our assessment of benefits identifies the impact of our policy on these groups.

A2.105 For other protected characteristics such as race, religion, or sexual orientation, we have not identified any potential for discrimination or adverse impacts. Some of the distributional impacts on these groups are included implicitly, where relevant, in the distributional impacts reported in **Table 2A.12**.

Appendix 3 - Levelisation methodology

A3.1 To support understanding of the levelisation process, below is a step-by-step guide to the levelisation model for Phase 1 (PPM and DD standing charge levelisation).

- Calculate the difference between DD and PPM at nil consumption.
- If PPM is greater than DD at nil consumption, make DD and PPM at nil consumption the same by proportionally (based on customer accounts taken from the latest quarterly Tariff and Customer Account RFI) redistributing the difference between DD and PPM at nil consumption.
- The result of this is that DD and PPM cap levels are the same at nil consumption.

A3.2 Below sets out the step-by-step guide to the levelisation model for SC and DD debt-related costs levelisation. This methodology is subject to further consultation as per the decision set out in Chapter 1.

- Calculate the debt-related costs for DD and SC by adjusting the Payment Method Adjustment Percentage (PAP) to isolate debt-related costs at TDCV and nil consumption.
- Remove the adjusted PAP amounts from DD and SC at TDCV and nil consumption.
- Add the adjusted PAP amounts back equally and proportionally (based on customer accounts taken from the latest quarterly Tariff and Customer Account RFI and consumption proportions) to DD and SC at TDCV and nil consumption.
- The result of this is that the debt-related costs are the same at TDCV and nil consumption and contribute the same amounts at TDCV and nil consumption to the DD and SC cap levels.

Appendix 4 - Introduction of Annex 9

A4.1 **Proposals consulted on** - Alongside our statutory consultation we published the proposed model (Annex 9) which would contain the Levelisation Allowance and the 'final' or 'post-levelised' benchmark maximum charges.

A4.2 **Decision summary** – We have decided to maintain our overarching proposal to introduce Annex 9 as proposed. However, we have made a number of minor changes to the proposed model in the interests of transparency, which we discuss below.

A4.3 **Stakeholder feedback** – We received no substantive comments on our proposed approach in written responses to our statutory consultation. One supplier highlighted a number of formulaic issues with the model, which we have since addressed. One supplier disagreed with the approach taken in the annex stating we provided no scope to consider smart PPM independently. As noted in Chapter 5, it is not proposed to treat smart and traditional PPM differently in this policy. Another supplier suggested using this policy as an opportunity to simplify/consolidate annexes. We do not intend to use this policy to make wider changes to the cap annexes.

A4.4 We also held a workshop with suppliers on our proposals for introducing Annex 9, which was held on 12 December 2023. The aim of this workshop was to explain to industry stakeholders how the model would fit into the price cap modelling suite and to give suppliers the opportunity to raise any concerns with respect to operational issues and / or their ability to ensure compliance with the levelised benchmark consumption levels.

A4.5 We received no feedback[69] to indicate that the proposed approach was not suitable, and therefore we have made no changes to our methodology as set out in our statutory consultation.

A4.6 However, at the workshop, we highlighted our intention to seek to improve transparency in the model itself. To this end, we have added functionality to enable Annex 9 to hold historical cap level data, including granular cost allowance information. These changes mean that stakeholders do not need to look across to other models for a detailed breakdown of the cap level information for the current and any previous charge restriction periods.

[69] We have published notes from the workshop alongside the non-confidential responses to the statutory consultation.

A4.7 Finally, to maintain alignment with how we currently communicate benchmark maximum charges at two decimal places, we have adopted the same approach for both pre-levelised benchmark maximum and post levelised benchmark maximum charges in Annex 9.

A4.8 Table A4.1 below outlines the changes we have made to the levelisation model upon which we consulted. We will consult further on any necessary changes to Annex 9 to support SC and DD debt-related costs levelisation at a later date.

Table A4.1: Summary of changes to statutory consultation proposals

Sheet type	Sheet name	Description of changes to statutory consultation proposals
Input	3a DTC_Other 3b DTC_SC 3c DTC_PPM	Pre-levelised cap level data input tables split by payment type and re-ordered for clarity and ease of input and to simplify subsequent calculation steps.
Input	3d Customer accounts	Sheet re-ordered to simplify subsequent calculation steps.
Input	3e historical level inputs	Sheet added to allow additional granular cap level data at the cost component level to be available in the model for transparency.
Calculation	2d Nil levelisation allowance 2e Nil differential	Calculation of nil differential and levelisation allowance moved to separate sheets for transparency and to facilitate retention of historical data.
Calculation	2a Historical_Other 2b Historical_SC 2c Historical_PPM	Additional calculation sheets added to facilitate retention of historical levelised benchmark consumption data.
Output	1a levelised DTC	Formulaic issues corrected and formulas simplified for transparency.
Output	1b Historical level tables 1c Consumption adjusted levels	Sheets added to maintain consistency with current overview model and facilitate stakeholder understanding.

Appendix 5 – Updates to consumer archetypes

A5.1 The consumer archetypes (distinct groups of energy consumers, which together represent all households across the country) used to produce the income weighted analysis presented in the statutory consultation have been updated for the following reasons:

A5.2 **Disability data** - The organisation Ofgem commissioned to update the consumer archetypes, Centre for Sustainable Energy (CSE), had only included the Disability Living Allowance (DLA) in the initial archetypes and not Personal Independence Payments or Attendance Allowance, so we asked them to include all 3 disability benefits. We consider that including all 3 benefits would be more representative for the archetypes than just DLA alone, especially as disability is one of our key indicators for vulnerability.

A5.3 **Over-estimation of consumption** - The consumption figures for gas and electricity were particularly high and did not match up with previous archetypes. There were two reasons for this, firstly, because the DUKES tables[70] report the UK values rather than the GB values. Secondly, the number of households that the DESNZ (Department for Energy Security and Net Zero) data are based on is different to the number of households that are scaled to using the weighting system in the Living Costs and Food Survey. This means that when dividing the same total consumption values by a different number of households, the means are different. To fix this issue, CSE scaled the consumption figures down to align more with the DESNZ data and our previous archetypes for consistency.

A5.4 For consistency, we have updated the income weighted analysis presented in the statutory consultation for cap period 11b, accounting for these updates. Phase 1 shows an equity-weighted net saving of £106m and Phase 2 shows an equity-weighted net saving of £226m. The updated analysis showing the impacts by consumer archetype are set out in Table A5.1 below.

[70] DESNZ, 2023, Digest of UK Energy Statistics - https://www.gov.uk/government/publications/digest-of-uk-energy-statistics-dukes-table-of-tables

Table A5.1: Income weighted distributional impacts (Cap period 11b)

Archetype	Households (‘000s) - DD	Households (‘000s) - PPM	Households (‘000s) - SC	Average impact – phase 1	Average impact – phase 2
A1	3,905.7	767.2	1,302.3	£1.66	-£7.49
A2	3,662.1	3,589.4	2,867.4	-£73.00	-£123.09
A3	3,593.7	3,924.2	2,673.8	-£70.54	-£104.25
B4	4,465.5	1,206.9	2,530.4	-£3.00	-£25.51
B5	2,681.6	1,193.7	1,080.4	-£8.93	-£21.30
B6	4,474.7	3,377.4	2,243.0	-£43.87	-£57.81
C7	2,693.0	2,979.0	1,849.1	-£35.83	-£55.04
C8	1,144.0	782.1	591.1	-£9.69	-£20.90
C9	25,475.7	1,230.4	8,021.6	£23.37	£14.05
D10	8,672.2	1,118.4	1,153.9	£6.24	£15.25
D11	7,556.7	2,154.5	2,957.0	-£5.53	-£15.39
D12	12,403.8	30.4	0.0	£16.88	£42.90
E13	3,420.7	2,715.9	1,067.0	-£17.21	-£18.76
E14	6,314.2	3,585.4	2,861.1	-£13.15	-£21.64
F15	1,841.2	836.8	804.1	-£3.70	-£9.68
F16	6,765.4	1,012.6	2,695.4	£1.08	-£3.09
G17	1,063.1	108.0	745.5	£2.12	-£16.14
G18	4,933.8	549.5	1,011.1	£2.23	£5.05
H19	5,349.2	107.3	1,001.9	£5.02	£8.35
H20	27,299.9	2,217.5	3,516.3	£4.53	£8.63
I21	15,936.1	2,561.3	2,779.7	£1.42	£5.21
I22	14,705.6	95.3	1,534.7	£7.38	£15.68
J23	16,154.9	206.0	1,100.5	£6.28	£14.27
J24	1,661.2	31.9	883.7	£1.51	-£4.93