

James Crump
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Ofgem
10 South Colonnade
Canary Wharf
London E14 4PU

19th January 2024

Dear James,

Re: Call for Input on Standing Charges.

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc, collectively known as “NGED”, in response to Ofgem’s Call for Input on Standing Charges.

NGED welcomes the opportunity to comment on Ofgem’s questions relating to Standing Charges. Please find our responses to the specific questions below.

Standing charges, network charges and the price cap

Question 1: What are the barriers to suppliers using the existing flexibility under the price cap?

NGED Response:

Potential barriers to suppliers using the existing flexibility under the price cap include market competition, regulatory constraints, risk aversion and profit margins.

Question 2: Why are suppliers not innovating on standing charges for tariffs not covered by the price cap?

NGED Response:

One of the main barriers preventing suppliers innovating on standing charges for tariffs not covered by the price cap is the cost as standing charges are treated as a pass through. The lack of innovation may also be due to market dynamics and limited competition. Another potential reason why suppliers are not investing in innovation could be the associated risk and uncertainty of customer behaviour.

Question 3: What changes could Ofgem make to improve provision for lower standing charges under the cap?

NGED Response:

OFGEM can improve transparency by asking suppliers to provide consumers with an accurate cost breakdown of their charge. i.e. How much of the standing charge is due to the DNO network, and how much is down to the ESO, and how much is down to others.

Question 4: As a result of TCR and changes to the recovery of residual costs, domestic consumers with very low consumption now bear a share of fixed network costs which is more in line with the cost of maintaining access to gas and electricity networks. Is this fair? Should more be done to shield these customers from these costs?

NGED Response:

The question of fairness is highly subjective.

According to the graphs

Figure 1: Electricity nil consumption (equivalent standing charge) level, Direct Debit customers, 2019-2023 (Source: Ofgem data) and Figure 2: Gas nil consumption (equivalent standing charge) level, Direct Debit customers, 2019 -2023 (Source: Ofgem data)

the SOLR and Net DUoS and Net TNUoS for electricity has risen sharply as a result of the TCR and the supplier failures but for the Gas these have remained at zero. This appears to be an inconsistent application of the tariff structure and needs explaining.

It is noted in the consultation that domestic consumers with electric heating will save money as a result of a larger proportion of the charge being fixed and that these customers do tend to be smaller houses or flats. However, is it also fair that customers with gas central heating in a 2-bedroom house have to pay the same amount as customers with gas central heating in a 5-bedroom house?

The main issue with the fixed charge is that as the methodology for the forward-looking charges were not updated at the same time as the TCR was implemented and therefore have been low in the past compared to the allowed revenue. Therefore, the residual has been too high and so too much of the charge is apportioned to fixed charges. It also created a price shock for customers as it was implemented very suddenly. The level of residual will be a massive issue in 2024/25 when the allowed revenue catches up from 2023/24, caused mainly by large inflation changes happening after the 2023/24 charges were set (15-month notice). The opposite is occurring in 2025/26 where the residual is very low. National Grid Electricity Distribution has requested re-profiling and re-setting the 2024/25 charges to fix this.

Question 5: What are the reasons for regional variations in electricity standing charges?

NGED Response:

The reason for regional variations in DUoS charges is due to the differing infrastructure and transport costs. The costs associated with building and maintaining the network varies across regions. For example, rural and remote areas may require more complex and extensive

infrastructure, increasing costs to transport energy. A further factor resulting in regional differences in charges is varying population density. Areas of the network with lower population densities may have higher charges. These costs contribute mainly to the forward-looking charges and are derived using the 500MW model.

The residual is the difference between the forward-looking charges and the allowed revenue and is recovered via a standing charge.

In addition, due to the complicated calculations and DNO specific assumptions applied by DNOs the forward-looking charges produce different proportions of allowed revenue which then can contribute to more different levels of residual.

Question 6: Can we learn from other sectors about how to improve suppliers' tariff offering in the UK energy market?

NGED Response:

This is a question specifically for suppliers and not for DNOs.

Standing charges and the domestic retail market

Question 7: Why do so few suppliers offer multi-tier or zero standing charge tariffs to their customers?

NGED Response:

This is a question specifically for suppliers and not for DNOs.

Question 8: Why are zero standing charge tariffs no longer offered in the market, with the exceptions cited in this paper?

NGED Response:

This is a question specifically for suppliers and not for DNOs.

Question 9: What measures could Ofgem take to improve the range of tariffs available to domestic retail customers?

NGED Response:

This is a question specifically for suppliers and not for DNOs.

Question 10: Why do no suppliers offer rising block tariff products at present? Would these products offer benefits to consumers?

NGED Response:

This is a question specifically for suppliers and not for DNOs.

Question 11: How significant an impact do standing charges have on customers' incentives to use energy efficiently? What evidence can you provide that this is the case?

NGED Response:

Large standing charges could be perceived to be a disincentive to using energy efficiently. This is because the standing charges are fixed, remaining constant regardless of any efforts made to use energy more efficiently which diminishes the financial incentive to reduce energy consumption. The significance of this depends on the proportion of customer bills the standing charge accounts for. More specifically, high standing charges mean customer might be less responsive to changes in energy consumption.

Question 12: Are there any forms of intervention in standing charges that Ofgem might consider that would minimise the risk of producing negative outcomes for some customers?

NGED Response:

Regular market reviews.

Question 13: How can we identify the complex needs of vulnerable customers and ensure that they are able to receive tariffs that benefit them the most?

NGED Response:

It needs to be decided by the regulatory bodies if fuel poor and vulnerable customers should receive extra support, whether this should be done through the application of DNOs standing charges or in the retail market and to which vulnerable customers any support should apply.

DNOs and suppliers already identify vulnerable customers, including through DNO Priority Service Registers. Those customers are categorised into high, medium and low needs based on their circumstances and in accordance with a common industry list. This includes those with critical electrically dependent medical equipment such as heart and lung machines being identified as having high priority needs, medium priority for those with other medical equipment such as oxygen concentrator, and those of pensionable age or with young children being in the low category. To avoid duplication of work or creating new complex needs lists, one option could be to use the existing needs codes to target tariff support to those who are considered to be in the high, or the high plus medium, priority categories in accordance with the existing PSR categorisation. DNOs share PSR information with suppliers using a legal basis of consent, so the information is available irrespective of whether the support is through DNO charges or supplier tariff arrangements. However, consideration would need to be given to the treatment of customers who may be added or removed, or have changing priority needs, throughout the regulatory year as these customer lists evolve on a daily basis.

Standing charges in the non-domestic retail market

Question 14: What issues affecting standing charges in the non-domestic retail sector should we consider further?

NGED Response:

The introduction of the TCR for non-domestic customers has introduced some unintended consequences.

For NHH customers it is applied by banding customers based on their EACs, or actual data if they are a profile class 0 customer, prior to the banding and then creating a fixed charge based on the forecast units for the customers within the band.

The issues with this are:

- Even though it is a fixed charge it is effectively charging customers a charge based on the forecast units consumed for all the customers in the band. So this is really a unit related charge applied to customers for units they are not using.
- The banding creates a cliff edge approach and so that the customers at the bottom of the band could be using a similar amount to customers at the top of the band below and are being charged very different amounts
- The NHH data used to create the bands is not always accurate

For HH customers it is applied by banding customers based on their average capacity for 24 months prior to the banding and then creating a fixed charge based on the forecast units for the customers within the band.

The issues with this are:

- Even though it is a fixed charge it is effectively charging customers a charge based on the forecast units consumed for all the customers in the band. So this is really a unit related charge applied to customers for units they are not using.
- The banding creates a cliff edge approach and so that the customers at the bottom of the band could have a similar amount of capacity to customers at the top of the band below and are being charged very different amounts.
- The banding is based on capacity even though there is already a capacity charge and so this could be double counting.
- Sites with high capacities and low demands have very large fixed charges and low usage. These include electric fast charging stations which are expected to have high usage in the future but may not have hit the profitability levels yet to sustain them and the high standing charges may hinder these.
- NGED has raised a change proposal, DCP420, to help electric fast charging stations from issues raised by Pembrokeshire County Council. In a recent meeting with the Charge point operators (CPOs) the CPOs cited the fixed charge and its variable nature as a large risk to profitability.
- As the banding uses 24 months average capacity a site may change their capacity due to a change in use during the banding dates and still be banded in the band above or below

the one they would have been in if their capacity at the end of the banding period was used. This can cause issues.

The banding lasts 5 years and so customers are tied into their band for a long period of time with only exceptional charges in usage being enough to change their band.

Should you have any queries in relation to our response, please do not hesitate to contact me.

Yours sincerely

VANESSA BUXTON
Regulatory Compliance Manager
National Grid Electricity Distribution