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18 January 2024

Dear James

STANDING CHARGES: CALL FOR INPUT

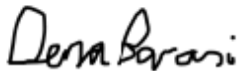
We welcome the opportunity to respond to your call for input on standing charges. Our responses to the stakeholder questions are in Annex 1 to this letter, however we would like to highlight the following points:

- Any rebalancing of costs between standing charge and unit rate should be achieved by rebalancing the upstream costs actually incurred by suppliers, and not by adjusting price cap allowances. Otherwise, suppliers are exposed to significant under-recovery of costs whenever the weather is unseasonably mild, or wholesale energy prices spike. Suppliers' core functions are customer service and development of products. It is in the interests of consumers that this is where effective competition in the retail markets should be focused, rather than management of volume risk due to a price cap allowance that requires fixed costs to be passed through to customers via unit rates.
- Suppliers must be able to recover efficiently incurred costs so that future retail markets work well for consumers. A simple adjustment to price cap allowances would create winners and losers due to the different characteristics of suppliers' customer bases. This may reduce the resilience of some suppliers and put them at a disadvantage in meeting their regulatory requirements.
- Addressing vulnerability through changes in the standing charge is a poorly targeted measure. For example, wealthy customers with second homes or behind-the-meter generation would also benefit at the expense of many households with vulnerable characteristics. Tariffs without a standing charge element will be popular with consumers who know that their consumption will be low, such that they will not pay a proportionate share of fixed system costs.
- If Ofgem were to mandate that suppliers offer a tariff with a low standing charge or no standing charge, customers in vulnerable situations may be drawn to tariffs with

a lower standing charge despite their demand being above average, meaning that they pay more than their fair share of system costs.

- With substantial investment needed to deliver net zero, the fixed system costs faced by suppliers may increase substantially. This means that Ofgem's strategy for network charging is fundamental to standing charge considerations. We are pleased that Ofgem is reviewing electricity network charges. In the longer term, it may also be important that the approach to gas network charging is reconsidered.
- More transparency on the expected future trajectory of costs would facilitate a more productive discussion about the key political questions related to standing charges. Without this, different approaches to increase the range of tariffs carry increased reputational risk for the sector – stakeholders may not understand that the costs of increased volume risk also need to be recovered, or that some suppliers will face greater risk depending on characteristics of their customer base.
- Incentives for investment in low carbon technologies will be affected by any change in the allocation of costs among network users and the basis on which these costs are recovered. Assessment of this impact is key to understanding whether any reforms that Ofgem is considering would be beneficial for current and future consumers.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dermot Barani'.

pp Richard Sweet
Director of Regulatory Policy

STANDING CHARGES: CALL FOR INPUT

- SCOTTISHPOWER RESPONSE

Q1: What are the barriers to suppliers using the existing flexibility under the price cap

There are a number of risks and challenges to suppliers offering low or no standing charge tariffs under the price cap. These relate to the following areas, and in some cases are barriers that are not only specific to tariffs covered by the price cap:

- Risk of under-recovery of efficiently incurred costs (applies to tariffs under the price cap and fixed term tariffs)
- Potential complexity inherent in providing information to customers relating to the suitability of low or no standing charge tariffs to their circumstances and the associated regulatory risks for suppliers (applies to tariffs under the price cap and fixed term tariffs)
- The additional regulatory burden under the price cap for suppliers to offer tariffs with particular structures.

Risk of under-recovery of efficiently incurred costs

Suppliers need to be able to recover their efficiently incurred costs. Recovering system costs which do not vary with consumption on a volumetric, £/MWh basis, exposes suppliers to risks of non-recovery if customers' consumption is lower than expected. While demand for electricity and gas has been in decline over the past decade, it responds to weather as well as external shocks such as the global financial crisis in 2008 and the energy price spikes in 2022 (illustrated in the below chart on electricity consumption). If suppliers' exposure to lower-than-expected volumes is increased this may increase the vulnerability of the sector to any future price shocks.

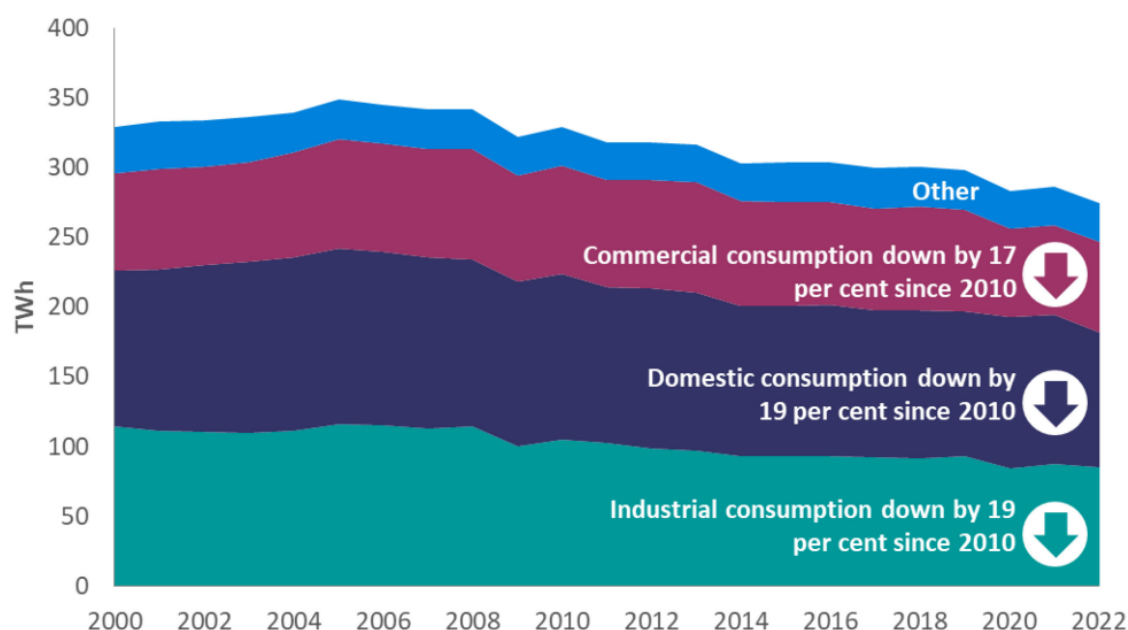


Figure 1 Electricity consumption by sector, 2000 to 2022 from DUKES 2023

Ofgem is working to strengthen the financial resilience of energy supply companies and a clear understanding of suppliers' exposure to volume risk in the event of changes to the

standing charge structure is key to this. Ofgem could develop the useful analysis presented in the CFI by also considering the impact of suppliers' increased exposure to volume risk and how costs would be responsibly mutualised when outturn demand is lower than expected. Note that as typical customer consumption varies, each supplier faces different levels of risk under the price cap.

We expect many customers with higher consumption levels will move to tariffs not covered by the price cap, as the market stabilises. This makes it particularly important that any changes to the price cap mechanism are designed to be future-proof and to allow suppliers to recover efficiently incurred costs, maintaining the financial stability of supply markets.

As we move to a smart, net zero energy system, we also expect to see increasing diversity in customer behaviour, as the adoption of smart appliances enables demand-side response. Combined with the effects of climate change on the weather, this may make forward estimates of customer demand less reliable.

As the investment in the electricity networks to deliver net zero will be recovered through network charges, the fixed element of the costs to serve customers has the potential to increase substantially, depending on how much is recovered through unit rates as the models evolve through changes in the relevant codes and their inputs are updated.

Ofgem should consider the longer-term trajectory of network costs in decision making and be transparent with stakeholders about their assumptions here. This would help manage expectations and allow for constructive discussions about the pros and cons of different measures aimed at reducing the standing charge.

Consumer understanding

We recognise the potential for some customer groups to benefit from low or no standing charge tariffs, however, in line with views from other stakeholders, we would highlight the potential for some of the most vulnerable customer groups to be exposed to a risk of higher overall costs compared to a standing charge equivalent tariff, in particular where their needs and circumstances lead to higher energy usage. Suppliers have obligations to ensure customers are able to make informed choices regarding their energy tariffs, and in assessing whether to offer low or no standing charge tariffs, consideration of the ability of customers to understand the most suitable tariff for their circumstances is key. This becomes even more acute where there is potential for consumer energy usage to change from that provided at the point of sale. With the ongoing narrative in the current market from some stakeholders appearing to suggest that standing charges as a concept are “bad”, we think there is a reasonable risk that some consumers may consider no standing charge tariffs to be appropriate for their circumstances even where information from a supplier suggests otherwise.

As the energy market develops and the potential for more complex tariffs associated with smart energy products emerge, we think the risk of potential confusion from consumers around suitable tariffs could increase and any requirement to offer no standing charge tariff structures could add to this challenge.

While not suggesting the above represents an absolute barrier to suppliers offering low or no standing charge tariffs, we consider it adds to other risks associated with offering such tariffs, particularly those under the price cap.

Regulatory burden of compliance

The price cap methodology is structured such that tariffs with a standing charge and (one or more) unit rates are the most straightforward for suppliers to offer from a pricing and cost recovery perspective, but also from a compliance perspective. While the relevant licence conditions (SLC 28AD 32 and 33) allow for alternative tariffs structures, they also require additional actions from the supplier to firstly seek a direction from Ofgem and to assess each customer's charges under the tariff within the relevant Charge Restriction Period. This additional burden of compliance adds to the other risks for suppliers of offering tariffs with alternative structures under the price cap.

Q2: Why are suppliers not innovating on standing charges for tariffs not covered by the price cap?

As we have noted in our response to Question 1, some of the same issues present under the price cap, notably around exposure to volume risk in an uncertain context, apply to "active choice" fixed term tariffs. The challenge of having asymmetric information is significant here – the customers who would be likely to choose a product without standing charges include those who know that their future consumption is likely to be low.

Customers have more information about their own circumstances than suppliers do and more insight into how their own energy use may change and what low carbon technologies they will invest in. Any supplier that offers a zero standing charge tariff may attract customers who know that they are likely to benefit by not paying a fair share of the fixed costs of the GB energy system.

In addition, while some suppliers offered no standing charge variants of tariffs prior to the Retail Market Review implementation which created significant constraints on doing so, experience suggests that these tariffs were challenging for many customers to understand. With the absence of such tariffs in the market for a reasonable period of time, customer understanding of the structure and the impact to them is likely to be lower, meaning that suppliers may be less minded to innovate in this area due to concerns around customers being able to make informed choices in the current market environment. This concern is particularly acute since, as noted in our response to Question 1, some market commentators are sharing messaging that standing charges as a concept are bad. This could lead to customers choosing tariff structures that are not the most suitable for them even where the supplier provides sufficient information for the customer to assess otherwise.

Q3: What changes could Ofgem make to improve provision for lower standing charges under the cap?

Price cap charge methodology

There are risks to suppliers associated with any changes Ofgem makes within the methodology of setting the relevant maximum charge under the price cap methodology. In particular, any rebalancing of fixed and variable costs between standing charge and unit rate must be achieved by rebalancing the upstream costs actually incurred by suppliers, not simply by adjusting price cap allowances. Otherwise, suppliers are exposed to significant under-recovery of costs as average customer consumption fluctuates, depending on the weather and other external effects. For this reason, Ofgem should not mandate how suppliers pass costs through to consumers.

We are pleased that Ofgem are carrying out post-implementation analysis of the Targeted Charging Review (TCR) Significant Code Review, assessing how the residual recovery reforms have gone and how they may need to change in the light of larger allowed revenues and new technology. We agree with Ofgem's position that charges should be stable, predictable, and fair for all network users.¹ As set out in our response to Question 5 below, we are pleased that Ofgem is also reconsidering the rationale for regional differences in network charges. It is possible that further analysis in these areas will lead to a reduction in the fixed costs faced by suppliers, which would facilitate lower standing charges for customers under the cap.

We are also pleased that Ofgem is carrying out a review of operating costs. We responded to the recent working paper from that review noting the potential for regulatory decisions here to create risks for system resilience. The goal should be a well-functioning retail market, where suppliers can make a fair margin through sustainable competition and have space to innovate and create longer term partnerships with customers.

Regulatory Burden

Ofgem could review the compliance and monitoring requirements within SLC 28AD relating to tariff structures with no or low standing charges and higher unit rates, to lessen the burden on suppliers who choose to offer such tariffs. This may reduce barriers to suppliers offering such tariffs, however in assessing this, Ofgem would need to assess the potential benefits versus the risks to customers who choose the tariffs. As we have already noted, we think there could be risks around consumers fully understanding the tariff they are choosing and the implications to them. Ofgem's current protections ensure that for tariffs under the price cap, suppliers must be able to evidence that consumers have not paid charges above the Relevant Maximum Charge, and any move to reduce or remove the protections would need to be considered against the benefits to what could arguably be a small group of customers who may benefit from such tariff structures.

Q4: 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?

While the setting of these network charges falls within Ofgem's remit, it intersects with government social policy. In our view, stakeholder concerns about standing charges would be best addressed through the introduction of a social tariff, which would allow support to be targeted to where it is most needed. In October 2022, a Citizens Advice survey found that 64% of respondents were in favour of bill support policies "even if this means taxes rise as a result"². Social tariffs are already used in both the water and telecommunications sector, where consumers in receipt of certain benefits can receive year-round discounts. We believe government should explore the role social tariffs could play to mitigate the worst impacts of high energy prices for vulnerable households, as a potentially necessary element of consumer protection.

Ofgem's Consumer Interests Framework³ defines "fair prices" as where:

- costs are efficient and fairly distributed
- undue price discrimination is prevented
- action to minimise consumer welfare risks is supported.

¹ [Ofgem presentation at the October 2023 Charging Futures Forum \(chargingfutures.com\)](https://www.chargingfutures.com/)

² [Fairer, warmer, cheaper \(March 2023\) \(1\).pdf \(citizensadvice.org.uk\)](https://citizensadvice.org.uk/wp-content/uploads/2023/03/Fairer-warmer-cheaper-March-2023-1.pdf)

³ [*Forward Work Programme 2023-24 \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/publications/forward-work-programme-2023-24)

The call for input on standing charges is concerned with the fair distribution of costs. This was considered by Ofgem in their work on the TCR, which was decided in 2019. The rationale for Ofgem's stance at that time still applies, ie that there are benefits to reducing the distortions to competition between different kinds of network usage.

However, domestic consumers with very low consumption have faced increasing standing charges, during a cost-of-living crisis. This has contributed to real hardship and prompted calls to lower the standing charge. Whether the allocation of costs that do not vary with consumption to domestic users with very low consumption is fair is a complex question. Ofgem's decisions have resulted in different approaches taken for different forms of network charge, with BSUoS and gas network charges recovered through the volumetric element of the charge, and cost-recovery elements of TNUoS and DUoS recovered through fixed per-meter costs.

Whilst we agree with the need to carry out a post-implementation review of the TCR and to review network charging more widely, we note that this type of policy review brings regulatory uncertainty, which is unhelpful for investment. Ofgem should be careful in setting the scope to avoid re-opening issues where this is not required and should seek to complete the reform process as soon as reasonably practicable.

Q5: What are the reasons for regional variations in electricity standing charges?

Each of the electricity and gas distribution networks (DNOs and GDNs) face different costs, which are attributed to network users in their region.⁴ This is largely why standing charges vary across GB, reflecting the costs of the different regional networks and also the number of consumers that those costs are spread across.⁵ There was a logic to this at the time of privatisation as the networks had been built to accommodate demand in a given region. However, the modern energy system is more complex with networks designed to accommodate distributed generation as well as demand. In this context, it is difficult to justify why different levels of fixed system costs are attributed to consumers, depending on the region where they happen to live. When Ofgem last reviewed this in 2015, they found that there was no compelling case from a regulatory perspective to move to a national network charge. There has been a great deal of change since then and we are pleased that these regional variations are under consideration through Ofgem's Future Market Design workstream.

Cost reflective differences in regional charges are not delivering clear system benefits but are delivering negative outcomes for some consumers, so a policy decision could be taken to levelise these regional differences while preserving efficiency incentives. This would move cost recovery toward a fairer and less specifically cost reflective approach.

We disagree with Ofgem's view (as set out in a recent publication on levelising standing charges for prepayment meters and debt-related costs across payment methods) that levelising regional differences would be contrary to the broader direction of reforms looking to increase locational differentiation.⁶ Regional differences in network charges at present do not reflect the impact of network users' behaviour on the system and so do not provide efficient incentives.

Any reforms introduced through the UK Government's Review of Electricity Market Arrangements or Ofgem's network charging reform programmes that bring new locational

⁴ Note that there is also regional variation in electricity transmission charges.

⁵ Electricity transmission network charges are also based on the geographical zone where network users connect.

⁶ [Levelising the cost of standing charges on prepayment meters \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/publications/levelising-the-cost-of-standing-charges-on-prepayment-meters)

signals would be intended to incentivise an efficient behavioural response at a particular time. They are likely to be reflected in the unit rate rather than the standing charge. Despite this, we recognise Ofgem's argument that removal of regional differences would increase the complexity of reconciliation and potentially bring delivery mechanism costs.

Q6: Can we learn from other sectors about how to improve suppliers' tariff offering in the UK energy market?

As Ofgem acknowledged, standing charges are used in other sectors beyond the energy market to varying degrees. However, we would question whether they are all relevant comparisons. For example, the role of standing charges in telecoms has decreased significantly due to technological advancements. In current markets, telecom products are more likely to be differentiated by the quality or amount of service, or a 'bundling' of products for a fixed monthly cost, allowing most customers the chance to self-select what they can afford. Any line rental costs that customers may continue to face will be bundled into the total cost of their package, rather than an explicit standing charge.

In England and Wales, the water sector charges both a fixed annual charge as well as a variable amount based on property value for non-metered customers, or a volumetric charge for usage for metered customers. The fixed charge makes up around 10% of bills, covering elements such as meter readings (if applicable), customer services and billing. The water sector also faces regional variations, depending on size of the region and availability of water. The cost of maintaining domestic supply and water quality appear to be charged through the variable annual rate, whilst the fixed price is mostly customer service related.

In other sectors, there does not appear to be the same expectation of responsibility on behalf of suppliers to deliver social welfare functions. When Ofgem emphasise that suppliers can recover costs through different tariffs, this contributes to a media narrative blaming suppliers for high fixed system costs, recovered through standing charges, contributing to a lack of confidence in the sector. Ofgem could be more transparent about why fixed costs are increasing and how these costs are expected to change as we progress towards net zero.

Q7: Why do so few suppliers offer multi-tier or zero standing charge tariffs to their customers?

All financially responsible suppliers design their products to allow efficiently incurred costs to be recovered. There has been a great deal of uncertainty around demand levels in recent years as customers' demand patterns adjust following the pandemic, the energy crisis and a period of high inflation. This uncertainty increases volume risk, which financially responsible suppliers reflect in their product design.

Ofgem's Call for Input sets out that standing charges for electricity have more than doubled in the past couple of years, due to Ofgem decisions on how Supplier of Last Resort (SoLR) and network costs should be recovered. Such substantial increases were not anticipated and would have meant that suppliers were more likely to lose money on longer-term fixed tariffs. It would be helpful if Ofgem could now provide reassurances on the future trajectory of these elements of the upstream costs faced by suppliers.

Multi-tier and zero standing charge tariffs need to be carefully communicated so customers understand what they are signing up to. As we have noted in our responses to Questions 1 and 2, there are challenges in ensuring that consumers understand what is in their best interest based on the information available at the time they sign up, and the additional risks they may face if their circumstances change, and their household energy usage is higher than

anticipated. There are further challenges for suppliers in ensuring that these complex tariffs are compliant with regulations and additional compliance and monitoring burden for tariffs covered by the price cap.

Q8: Why are zero standing charge tariffs no longer offered in the market, with the exceptions cited in this paper?

The lack of zero standing charge product offerings can be explained by the increase in the risk of lower standing charges due to the increasing volume risk, which is outlined in our response to Question 7. Any supplier offering a zero standing charge tariff will be exposed to significant under-recovery of costs when average customer consumption is lower than expected. Therefore, any rebalancing of costs between standing charge and unit rate would be best achieved by rebalancing the upstream costs incurred by suppliers.

There is also an asymmetry of information problem in terms of which customers choose to be on volumetric tariffs – those who choose a volumetric tariff may have good reason to believe that they will use less energy and so avoid contributing to fixed costs of the energy system. Suppliers must be able to recover efficiently incurred costs so that future retail markets work well for current and future consumers overall.

Ofgem notes in the consultation that, in the majority of cases, suppliers have default tariffs with standing charges (and unit rates) priced at levels very close to the price cap level. While the price cap is a limit on what customers can be charged rather than a set regulatory price level, in our experience, the level of the cap has been set such that most suppliers have found it financially challenging to set either the standing charge or unit rate at levels below the cap level. We have set out elsewhere in this response (Questions 1 and 2) the challenges suppliers face in offering no standing charge structure tariffs either under the price cap or via active choice fixed term tariffs.

Q9: What measures could Ofgem take to improve the range of tariffs available to domestic retail customers?

Ofgem should first reconsider whether the range of tariffs available to domestic retail customers needs to be improved and whether measures to increase it would be expected to deliver real benefits to consumers. Given the presence of the price cap and the insolvencies of suppliers that were less risk averse, it is not surprising that the range of tariffs is smaller than it used to be. As noted above, the substantive increases in the fixed costs recovered from suppliers, in a context of less predictable demand patterns, will also have contributed.

If Ofgem identifies clear net benefits to GB consumers from a tariff with a lower standing charge, this could be done through the price cap, with rigorous consideration of the cost of additional volume risk. This would allow Ofgem to provide clarity on the costs and benefits of the approach.

If Ofgem were to mandate that suppliers offer a tariff with a low standing charge or no standing charge, this would potentially damage competition. Suppliers whose customers' average energy use is relatively low would still need to recover their efficiently incurred costs and reflect the risk of non-recovery in their tariff design, with potential reputational damage due to the resulting high unit rates or exit charges. Conversely, customers in vulnerable situations may be drawn to tariffs with a lower standing charge despite their demand being above average, meaning that they pay more than their fair share of system costs.

Ofgem may have a role here in providing clear information to consumers in general on the implications of choosing a tariff with a lower standing charge and more fixed costs recovered through the unit rate. This could be combined with the regulator's expectations regarding the future trajectory of network costs and the implications this has for customers in the longer term.

Q10: Why do no suppliers offer rising block tariff products at present? Would these products offer benefits to consumers?

Similar issues with volume risk and regulatory risk arise for rising block tariff products as with zero standing charge products. While they will be beneficial for some consumers – these products are most beneficial for those consumers who are able to avoid contributing a fair share of the fixed costs of the system.

Rising block tariffs may present additional risks for vulnerable consumers in that with unexpectedly cold weather, they may face very high charges that do not reflect the real costs of providing them with acceptable levels of comfort. If, for example, the fixed costs of the electricity networks are recovered more through rising block tariffs, this might lead to customers in vulnerable situations being unable to afford electric heating. There are serious welfare risks associated with regulatory policy changes in this area.

We would also flag the potential for customers of not understanding the suitability for their needs of more complex tariff types, such as a rising (or reducing) block tariff, as referenced in other parts of our response. Suppliers may have concerns relating to their ability to ensure customers are making informed choices in the current more complex market environment.

Q11: 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?

Ofgem is established in statute as an independent economic regulator and so we understand that here "efficiently" is intended in the economic sense. When resources are allocated to their highest valued use, the outcome is said to be economically efficient, and this applies to consumers' use of energy as with other sectors. In line with Ofgem's published impact assessment guidance, we understand that the carbon impacts of changes in customer incentives will be included in the assessment of system costs or benefits that informs a final decision by the Authority.

Standing charges increase the cost of access to the networks and reduce the costs covered through the volumetric charge to a level that is more reflective of the costs of providing that energy. This means that consumers are incentivised to reduce their energy use to the point where the value they expect from that use (eg a warmer home) matches the opportunity cost of alternative uses of their limited resources. A customer is using energy efficiently if they are choosing the level of usage that best meets their needs given their own unique circumstances and alternative options. It is not efficient to be incentivising customers to avoid using electricity when the benefits of this to the system⁷ and the supplier are lower than the resulting costs to the customer.

Moving fixed costs currently within the standing charges to the volumetric element of the charge may also add a significant disincentive for households to transition to new low carbon heating technologies and electric vehicle use. This may create a barrier for the UK in meeting its net zero target, which depends on significant electrification in the near term.

⁷ With assessment of system benefits to include any change in carbon emissions

Demand side response is a nascent market which Ofgem considers to be one of the most cost-effective sources of flexibility in the electricity system.⁸ Realising that flexibility in turn depends on consumers' engagement and their willingness to make investments in low carbon heating technologies.

Note that recovering more costs through the volumetric charge would improve the business case for decentralised energy assets such as solar panels, giving them a further advantage over grid-connected renewable generation. This is not necessarily efficient in terms of reduced system costs - quantification of the potential impacts of any change on behind-the-meter generation would inform assessment of the overall benefits here.

Although the Call for Input identifies the cost of government schemes such as the Warm Home Discount as part of the nil consumption cost, policy costs are mostly recovered through volumetric p/kWh levies.⁹ The costs associated with schemes that have now closed, such as Renewable Obligation and Feed-in Tariff schemes do not relate to the volumes of electricity currently consumed and arguably could also be treated as part of the nil consumption cost and so recovered through fixed charges.

However, in considerations of the design of a levy to support Energy Intensive Industries the Government has recently confirmed that it recognises the clear benefits of a volumetric levy that aligns policy costs more closely with energy consumption. This may hint that they would be willing to consider aligning all policy costs more closely with energy consumption, including perhaps the Warm Home Discount. These costs are determined by government policy rather than set by Ofgem. However, awareness of the potential impact of the approach to recovery of the cost of government schemes is relevant to standing charge considerations and Ofgem has a role in advising government.

Q12: 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?

Stakeholder concerns about standing charges could be addressed through the introduction of a social tariff. This is the only approach that can minimise the risk of negative outcomes for some customers. This would allow changes to be targeted at those households that are in need of support and would reduce the risk of negative outcomes for other consumers.

While changes to the recovery of network charges and SoLR costs may be beneficial when considered in the round, there will always be winners and losers when Ofgem decide on changes to the mechanisms for how costs are to be allocated among consumers. It is key that Ofgem and government are transparent about the impact of their decisions on how costs are to be recovered.

Q13: How can we identify the complex needs of vulnerable customers and ensure that they are able to receive tariffs that benefit them the most?

There are two key parts to this: ensuring that the right mechanisms are in place to support customers and targeting that support at those who are most in need. As set out above, we consider that a social tariff is the most effective approach to supporting vulnerable customers.

⁸ Slides presented at Ofgem Workshop on engaging domestic consumers in energy flexibility, held on 6 December

⁹ For a breakdown of these costs, see: [Who-pays-for-supporting-the-Net-Zero-Transition.pdf \(cornwall-insight.com\)](https://www.cornwall-insight.com/who-pays-for-supporting-the-net-zero-transition.pdf)

We consider that Ofgem, Ofwat and other regulators could work together with government to better collect vulnerability data on consumers so that the complex needs of vulnerable customers are identified effectively. The DWP data used for the Warm Homes Discount scheme may be useful in assessment of the complex needs of vulnerable customers and it may be possible for Ofgem to access other relevant government data.

Q14: What issues affecting standing charges in the non-domestic retail sector should we consider further?

If Ofgem decides to change the approach to recovery of the fixed costs that are within their control (network charges and SoLR levies) in a way that reduces the fixed costs faced by suppliers of non-domestic customers, it follows that suppliers will then be in a position to offer tariffs with lower standing charges within their appetite for exposure to volatility risk.

As noted above, we are pleased that Ofgem are undertaking post-implementation analysis of the TCR. One of the outcomes of the TCR was that Ofgem decided that the charge should be levied on a fixed rather than volumetric basis, with a series of fixed charging bands set for all of GB for non-domestic consumers. We would ask in particular that Ofgem reconsider the effect of these bands. The current approach to banding means that non-domestic consumers close to the TCR charging boundaries face a significant incentive to squeeze themselves down into the lower segment. The bandings add considerable complexity to non-domestic tariffs and make it more difficult to make comparisons among different suppliers. In the non-domestic sector demand may be more variable. The fixed charging bands may also complicate response to demand-side response incentive schemes.

Ofgem notes that it is important that non-domestic customers are able to access a suitably diverse range of products that meet their needs. It is not clear what Ofgem means by this, or how “suitably diverse” will be assessed. Given the breakdown of underlying costs, it could be argued that the market is already offering a diverse range of tariffs that meet consumer needs for consumers in both categories.

As with domestic consumers, it would be helpful to non-domestic consumers if Ofgem could be more transparent about its expectations around the future trajectory of how fixed system costs are to be recovered from demand. This would help consumers to understand why standing charges have been increasing and manage their expectations for the future as we work to deliver net zero. Improved transparency from Ofgem would help restore trust in the sector.

ScottishPower
January 2024