

### Standing charges call for input

Dear James and team

We agree that standing charges are currently too high – that's why we consistently price ours below the cap, without uplifts to our unit rates, absorbing as much of these costs as we can, and provide standing charge holidays for those who can least afford energy. We think it would be good for consumers – particularly those on low incomes and on pre-pay arrangements – if Ofgem took positive steps to drive down these costs, reducing the negative distributional impacts and reducing the unavoidable “tax” customers face to access energy.

However, in achieving this goal we are concerned that rather than looking to drive down wider system costs – or to ensure that customer related charges that suppliers face are cost reflective and fair – Ofgem might instead be looking simply to change the price cap, to redistribute them in a more palatable way. We strongly urge against moves to simply shift customer related costs onto the unit allowances in the price cap and against measures which create a mismatch between the basis on which suppliers incur levies and charges from network companies and the basis on which the price cap allows us to recover these costs. This could result in significant distortions to the market, creating winners and losers, potentially resulting in further calls for cost socialisation and weakening incentives on suppliers to help customers manage their energy use. It further has the potential to worsen the risk of energy rationing and could diminish incentives to provide innovative time of use tariffs – including the viability of zero unit priced products like [Power Up](#).

Rather, Ofgem has a significant role to play in keeping whole system costs down. This can be achieved by:

- considering how to optimise upstream costs (network, balancing and optimisation of generation and storage assets)
- work with government to remove regressive policy taxes
- consider whether system costs are fairly allocated between fixed and variable charges (eg through the various network charging methodologies) and that agreed methodologies are properly implemented. Significant redistribution of costs across different customers and different regions is better achieved through

changes to these methodologies than through divorcing the retail price cap from the cost structures which are passed through to suppliers from other parts of the energy system

- More generally, making sure that the implications of changes to regulations elsewhere – for example the Transmission Charging Review (TCR) – on the price cap standing charge are better understood before making decisions, and as part of these decisions considering the opportunity to structure charges to assist with distributional concerns
- putting pressure on all parties to ensure continual efficiency improvements, including but not limited to network companies
- encourage innovation and the use of flexible solutions to drive down sunk costs
- Conduct a thorough supplier opex review, including reassessing the cost reflective split between customer related and unit driven opex
- Considering whether cost uplifts for payment methods truly reflect the cost to serve those customers

The focus of our response is on how to build a healthy competitive market that enables a progressive understanding of energy usage, through smart data, intelligent optimisation and inclusive design. These in turn enable individuals to access tailored products and services that suit their needs and drive down energy costs for them and for all households. We'd be happy to discuss this further at any time

Regards

Kat Renton

Head of Regulation

Octopus Energy

## **Standing charges, network charges and the price cap**

### **1. What are the barriers to suppliers using the existing flexibility under the price cap?**

Octopus Energy entered the market with a clear mission to deliver cheaper, greener energy. From the outset we recognised that to do this we must build a business that households trust. We have purposefully designed every element of our model around our customers, including the thoughtful design of our tariffs and products, and consistently deliver award winning service, being rated Which Recommended in 2024 and for the 7th consecutive year – with customers rating us the only supplier with five star customer service.

We already price below the price cap standing charge, passing on our more efficient costs and shouldering some of the burden of rising energy prices. This is the only feasible way in which we can use the “flexibility” in the price cap. It is not feasible to go further – for example to charge our SVT customers a zero standing charge, and seek to recover the customer-related/fixed costs via above price cap unit rates as might be permitted under licence condition SLC28AD. This is because we would find it very onerous to provide evidence to Ofgem that we are still compliant with the price cap across all customers and all regions – and this is an onerous assurance that would need to be repeated every time the price cap changes. Experience with obtaining Ofgem assurance for our non-standard evergreen tariffs has reinforced this point.

We understand the interest in rising block tariffs because in theory they might discourage high energy use. However, there are many downsides with this approach, including the risk of poorer households in large and inefficient homes rationing the energy they need to lead a healthy life. We ask Ofgem to proceed with caution on any measure that seeks to create stepped increases on unit rates according to consumption volume.

Rather our focus is on helping customers to reduce energy wastage through energy efficiency improvements and advice, and to optimise costs for necessary usage through dynamic pricing and Demand Flex. We recognise that the standing charges are too high and therefore have consistently priced our standing charge under the cap, to ensure that we minimise the fixed charges customers face as best we can. We further have provided standing charge holidays to households who we know can least afford to pay them, without constraining their tariff choice or households needs – enabling them to engage in further

beneficial products and tariffs. We agree that customers need help with their bills – particularly low income and prepayment customers – but believe that using the existing flexibility is a suboptimal solution.

## **2. Why are suppliers not innovating on standing charges for tariffs not covered by the price cap?**

Throughout our short history we have continually innovated to drive down energy bills – delivering our first Time of Use product in 2017 (we now serve over 100k customers with a range of dynamic tariffs) and designing a range of services (used by over 1.5 million customers) that enable customers to reduce their energy bills without rationing their usage.

**Our range of products, services and tariffs are all designed to drive down energy bills by removing inefficient energy waste and shifting necessary energy usage into cheaper (or even free) time periods, without impacting household requirements.**

We do not agree that shoehorning fixed/customer related costs into volumetric recovery makes sense, it will make it far harder to provide these free electricity windows, dulling the delta between the high and low price windows and therefore reducing the benefit of load nudging (benefit for that household in the moment as well as for all households through balancing optimisation – the cost of which feeds through to all households in future energy bills).

Further, the vast majority of the costs we pass on to customers via their bills are not our costs. If the bills and taxes we face are levied on us according to volumetric use, then we can make sure they are recovered from customers in that way too. For example, we support government in considering how to remove the Green Gas Levy from standing charges by reforming how the levy is charged and therefore how it can be collected. Should a charge be incurred on usage then it would become viable to collect that cost on usage without dampening innovation.

At an industry level innovation in standing charges is high risk (without reviewing how the underlying costs are incurred as per above) and a distraction from innovation and system change that provides meaningful financial benefit to households and the planet. It will encourage customers to focus on the wrong levers – tariff hopping to avoid volumetric recovery during the winter months and gaining lower standing charges in the summer months. If this did occur it is probable it will lead to exit fees on fixed products being

substantially increased, to protect against the threat of seasonal under recovery, with default products being unlikely to be viable. This in turn will erode trust and make it less likely that customers will engage meaningfully in the market as dynamic products and tariffs are rolled out (which can provide financial benefit in excess of standing charge costs to households).

Ofgem has invested heavily in ensuring that suppliers remain financially resilient. By making costs seasonally collectable (but incurred across a year) suppliers could find themselves less resilient and materially at a loss in the scenario of a warm year, such as 2023<sup>1</sup>.

### **3. What changes could Ofgem make to improve provision for lower standing charges under the cap?**

We think Ofgem need to consider both whether the level of the costs are efficient and if it is correct to attribute those charges to meter points rather than energy usage. When referring to figures 1 and 2 in the call for input it is visually clear how the standing charges are broken down.

- a) **Operating Costs** - We have long supported the need for a comprehensive review of supplier operating costs, ensuring they reflect the efficient cost to serve and debating whether they should be collected through standing charges or unit rate - we look forward to supporting Ofgem on this in 2024.
- b) **Policy Costs** - this is dominated by the cost to deliver the Warm Home Discount (WHD). We think it is time that government and Ofgem review the delivery of WHD - ensuring both breadth and depth of support are far more closely linked to the real time cost to heat the home - as well as rethinking how this scheme is paid for - general taxation being a far more progressive way to support households who can least afford energy. Removing these costs from standing charges would reduce the household energy bill by at least £20 a year/6p a day for a dual fuel customer.
- c) **SoLR costs** - these were predominantly due to wholesale volatility in 2022 and the cost to hedge for c4m customers when less prudent suppliers failed at scale, we expect the costs to naturally tail off this year. We do see value in Ofgem reviewing the collection of these costs for future benefit (noting for gas SoLR costs were

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<sup>1</sup> <https://www.bbc.co.uk/news/science-environment-67861954>

volumetrically recovered) and also working with government to ensure pending SAR costs are collected progressively – ideally through tax.

d) **Distribution and Transmission Costs** – There are a number of points here:

- i) We would like Ofgem to be more joined up in its review of network charging methodologies to consider the impact on final customer bills and the standing charge in particular, and avoid a repeat of the unanticipated impact that TCR had on the standing charge in the price cap.
- ii) There is an opportunity for Ofgem to review these methodologies and to use them should it wish to distribute costs across regions and across different customer types – rather than seeking to create a mismatch between the structure of the price cap and the balance between fixed and unit related costs we pay as suppliers. We note that as the networks have a revenue cap, there is little risk to them of such changes, as they will recover the same revenues whatever the methodology.
- iii) More generally, we urge Ofgem to be forensic in pushing for efficiencies within the networks themselves. For example, we note that the Boston Spa Energy Efficiency Trial (BEET) has proven that by optimising voltage across the grid households can incur significantly lower annual charges without any risk of disruption to supply, a focus on scaling this will provide huge financial benefit to households as well as reducing emissions and releasing capacity on the networks.<sup>2</sup> In question 4 we provide more information on how Ofgem can also review the residual and forward looking costs that are being determined through TCR and the benefit of reviewing whether TCR has generally achieved its goal of driving down costs and efficiencies up.

Beyond the costs within the fig 1 and 2 there are cohorts of customers who incur yet higher charges, for example through geographic location (see question 5) and Prepayment tariffs, where there is a flawed assumption that there is a higher cost to serve. We agree that servicing legacy metering incurs a higher cost because of the PPMIP infrastructure. However, this technology is outdated, bad for customers and should be being replaced quickly. Smart prepayment costs no more than direct debit to serve and has far superior protections for customers. We are concerned that Ofgem are considering a way to smear legacy costs rather than eradicate them – delaying the extinction of the outdated

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<sup>2</sup><https://www.current-news.co.uk/northern-powergrid-unveil-voltage-control-project-to-increase-network-efficiency/>

infrastructure, distorting competition in the market and baking in unnecessary costs for customers.

This list shows the various actions Ofgem can take to reduce the size of the standing charge in the SVT and competitive market. We stress that looking at the drivers of the system costs that are passed on to retailers is the best way of getting to the “root” of the problem. It would be entirely inappropriate for Ofgem simply to look at how the price cap is structured – or to put pressure on suppliers to charge lower or zero standing charges in the competitive market in achieving the goal of lower standing charges.

**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?**

Now that TCR has been implemented it is a good time to review whether a) it achieved its goals b) if it delivers the best outcomes for customers, taking into account the distributional impacts.

We recognise that implementation of this change occurred at the same time as wholesale costs soared and as such a reduction in unit rates did not occur in unison, making TCR changes feel unbeneficial. However we also recognise that the TCR was developed to reduce overall cost to households and a holistic review of whether this has occurred would aid future thinking. Such a review should also recognise the limits to “purist” cost reflective network charging on customer behaviour – and consider the merits of distributional fairness versus the likelihood of achieving objectives related to keeping down the system cost through domestic consumer network charges.

More importantly we think Ofgem can go further to look under the bonnet. The TCR has shifted only the residual charges onto fixed/customer related costs, forward looking charges are still recovered volumetrically. By reviewing why 77% of TNUOS (c.12p a day) and 27% of DUOS (c.6p per day)<sup>3</sup> are from residual charges, Ofgem could make improvements that drive down standing charges. We recognise that residual charges are already a focus of the TNoUS Taskforce and the DUoS Significant Code Review (SCR) – it is key that Ofgem

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<sup>3</sup><https://www.chargingfutures.com/media/1602/cff-slide-pack-31-october-2023-final.pdf> slide 35

ensure there is momentum to these reviews and they have a pro consumer and distributional focus.

## **5. What are the reasons for regional variations in electricity standing charges?**

The regional variations in standing charges (both in the competitive market and in default SVT tariffs) relate to different per meter point charges from DNOs across the country. The root of this is that Ofgem sets allowed revenues for each DNO, distribution charges are set regionally and they vary considerably across the country reflecting the different cost of the network and the population densities in each region.

As noted above, if Ofgem wanted all customers across the country to face the same standing charge, then it could do this by requiring all DNOs to charge the same per meter charges and create a reconciliation mechanism to keep the DNOs “whole”.

We note in particular the distributional issues associated with an Ofgem approved methodology which results in higher per meter charges in rural and low density parts of the country (like North Wales). According to DEFRA “the more rural the area the lower the proportion of properties with an EPC rating C and above”<sup>4</sup> – Old rural homes are generally the leakiest/most expensive to heat and there are equity and distributional fairness issues with methodologies that result in higher standing charges for customers in these areas.

## **6. Can we learn from other sectors about how to improve suppliers’ tariff offering in the UK energy market?**

In reference to the examples given it is worth noting that whilst water has a standing charge constituting about 10% or less of the average water bill in Great Britain<sup>5</sup>, it is an entirely regulated market with the companies enjoying an allowed revenue cap and very little risk of not recovering their allowed revenues, whatever the charging methodology. We suspect this is therefore not a helpful example for energy retail – though it does serve to reinforce the point that should it wish, Ofgem can make changes to energy network charging methodologies in order to serve distributional goals.

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<sup>4</sup> [DEFRA Statistical Digest of Rural England: 2 – Housing](#)

<sup>5</sup> [Standing charge call for input](#) – 3.49 p30



Telecoms do bundle fixed charges into contracts. The downside of removing the fixed costs from sight is that customers are much more often tied in to the full contract term, with larger exit fees where contracts are broken (90–97% of the cost of the remaining contract term). Further it is normal for annual price rises to be written into contracts, in line with (but often above) inflation – not a feature in energy retail tariffs.

Looking globally it is not unusual to have standing charges to cover the fixed costs to serve a meter point. In America most states do this, with California currently looking at how to move away from volumetric recovery of “delivery charges” to fixed. In their case delivery charges are extremely high due in large part to the size of the state and extreme weather but also related to the large allowance for operating costs and profit. California is designing a solution to try and make charges more equitable (by creating a tiered fixed charge system – only for delivery charges – that is pegged to household income) and more in line with their decarbonisation goals (by reducing volumetric costs in order to enable decarbonised technologies)<sup>6</sup>. We note that the applicability of this to Britain would depend significantly on retailers gaining access to government data about income or at least benefit status – something we do not have.

## Standing charges and the domestic retail market

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

Our mission is to help customers to access cheaper, greener energy in such a way that collectively we can drive down costs for all households and ensure our future energy security. We are yet to understand why developing multi tier and zero charge solutions will help customers, when they can already access far superior products and services that help them manage their energy costs. Specifically:

**Multi Tier Tariffs** do not align with our principles regarding transparency and fairness. Not only is it complicated for customers to understand and control, it is also complex to administer a system of volumetric recovery for meter related charges. For example, in 2020

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<sup>6</sup> [Policy doc](#) April 2023

Ofgem completed a review into the Utilita multi-tier tariff, uncovering overcharging errors that affected c.40,000 customers to the tune of c.£127,000. It cost Utilita a minimum of 500k in redress as well as the cost to rectify<sup>7</sup>. In spite of this they found further problems in 2021 with regards to Warm Home Discount customers<sup>8</sup> demonstrating the difficulties of trying to fit a square peg in a round hole.

Generally, the concept of blocking usage does not align with our mission to responsibly reduce energy wastage. We are also concerned that rising block tariffs risk creating an incentive for customers to ration usage, even if those customers require the additional energy to maintain a warm and healthy home (refer to question 10 for more information).

**Zero Standing Charge Tariffs** do not align with our mission nor our approach to providing clear and transparent information – they make understanding potential energy costs more complicated, not less. In particular our focus is on designing and delivering products and tariffs that both reduce costs for the households on the tariffs and also reduce the overall system peak demand that adds huge costs onto all household bills. If our Time of Use unit rates were to have nil consumed costs added into them we would effectively be creating a floor to savings – it would mean our Agile customers would be less likely to see negative pricing, our Power Up customers would never see free energy usage windows and generally there would be less financial incentive to flexibly shift energy – the nudges will be dampened.

In this context we note the findings of the recent analysis by Cornwall Insight<sup>9</sup> suggest that each GW of peak demand that is avoided, saves around £1bn in investment cost on the system (split roughly  $\frac{2}{3}$  generation capacity and  $\frac{1}{3}$  network investment).

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<sup>7</sup>[Decision](#) of the Gas and Electricity Markets Authority to close its investigation into Utilita's compliance with its obligations under Standard Licence Condition 28A (Prepayment Charge Restriction) of its gas and electricity supply licences

<sup>8</sup>[Investigation](#) into Utilita and its compliance with its obligations under the gas and electricity supply licences, Standard Licence Condition SLC 28A (pre-payment charge restriction)

<sup>9</sup> [The power of flex: Rewarding smarter energy usage](#)

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

We constantly review our tariffs and services and have previously explored whether zero standing charge tariffs would add value to our proposition. At the time of last discussing the concept it was clear to us that whilst it may seem like a good deal to a customer when comparing the market (where they can use independent platforms to self determine usage) the reality is that medium demand households would not be able to make a saving, instead they might perceive that they could make a saving when signing up for the tariff and therefore would feel misled at the end of a contract period. This does not align with our values. Further a default zero standing charge product will inevitably under recover reasonably incurred costs making it unviable for a financially responsible supplier. This is because the price cap is in place to ensure all households are protected by a maximum cap. Any customers who use more energy than is needed to volumetrically recover nil consumed costs will need to be recompensed for any over recovery, however any customers who use less energy than needed to recover these costs will not be able to be charged extra for this shortfall.

## **9. What measures could Ofgem take to improve the range of tariffs available to domestic retail customers?**

We respectfully challenge the logic behind asking this question. Ofgem has recently developed a new competition framework, which includes consideration for the development of "new tariffs". Whilst we have written to Ofgem to engage in conversation as to the pros and cons of this exact language (it was only a decade ago that Ofgem was concerned that there were too many tariffs in the market, bamboozling customers) we do agree that Ofgem can encourage healthy competition by considering how a supplier is innovating, through their tariff range as well as services and support. Ofgem should not try to narrow focus and prescribe how this looks - it needs to ensure that all suppliers are thinking about all customers and innovating to design solutions that suit. To do this Ofgem must challenge itself and industry to consider how to make products and services accessible to all customers and what "healthy competition" looks like - historically this was seen as the number of switches but in the transition to a decarbonised system active loyalty will enable customers to test and learn how to change their habits to maximise benefits - actively loyalty that will only occur with high levels of satisfaction and trust.

Ofgem can encourage this want to innovate by ensuring market redesign is not delayed – for example keeping Market Wide Half Hourly Settlement on its current delivery schedule and ensuring no further delay occurs – and working to create the price signals and routes to market for consumer flex, while ensuring a level playing field and pro consumer protections.

In terms of how Ofgem can encourage this healthy competition we think Ofgem needs to consider how to rebuild trust, to design a good outcomes based assurance methodology that drives up standards and focuses on the core standards of conduct. The licence conditions can be simplified to make innovation less burdensome and enable tariff development to flourish (which goes hand in hand with rebuilding trust) and Ofgem can increase data transparency to impartially help consumers navigate the energy market (for example publishing a list smart tariffs with explainers on what TOU tariffs are and how customers can maximise benefits on them).

#### **10. Why do no suppliers offer rising block tariff products at present? Would these products offer benefits to consumers?**

At a high level we have seen no evidence that a rising block tariff would provide mass benefit to customers in a country where the quality of housing stock is so low. A rising block tariff is designed to focus a consumer on reducing demand (or using only a defined amount of energy at a reasonable price) rather than flexing the time of use. It is well known that the UK has some of the worst housing stock in Western Europe, Tado recently suggested that such houses leak heat \*3 faster than our Western European counterparts<sup>10</sup>. Whilst households can have the ambition to reduce their usage needs in order to stay within a certain block of usage they are constrained by their leaky homes and household needs – to attempt to constrain usage under such conditions will inevitably lead to unsafe rationing. Further trying to drive down usage will not alleviate pressure on the grid, forcing unnecessary upstream redevelopment that ultimately is paid for through customer bills.

Rather than asking customers to work in blocks of energy we are helping them to understand the energy system and therefore work in periods of time. With “set and forget”

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<sup>10</sup><https://www.tado.com/gb-en/press/uk-homes-losing-heat-up-to-three-times-faster-than-european-neighbours>

automations this need not be a burden on households, there is no upper limit to energy usage that they need to be conscious of, customers are free to use as much energy as they like but are incentivised to use that energy when green electrons are in abundance. For example those who live near one of our wind turbines can get cheaper energy whenever the wind blows and any customer with a smart meter can receive financial savings by reducing usage when the grid is constrained. Further in the UKPN distribution area it is now possible to access free energy, should the grid be awash with electrons and at risk of asking a wind turbine to power down<sup>11</sup>. These tools all ensure that GB makes the most of the natural resources on our doorstep, driving down bills for millions of households.

Focus should be on improving housing stock at pace (to remove energy wastage), modernising the grid (to enable flexible demand at scale) and focusing regulatory incentives – or the removal of barriers – to ensure customers can access flexible solutions. These will all drive down the cost of energy.

All the while Ofgem are right to be concerned about household affordability and, in collaboration with government, should consider whether it is fair to collect policy costs through energy bills and if WHD provides the correct breadth and depth of support to households who are currently unable to afford to heat their home.

### **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?**

We recognise standing charges are too high but redistribution comes with risk – Ofgem need to be very careful not to assume redistribution will drive positive energy efficiency when the reality is it could worsen living standards through rationing.

In questions 7 and 10 we explain why adding customer related costs into unit rates risks exacerbating negative behaviours, such as energy rationing, which can easily be confused with energy efficiency. It is incumbent on suppliers and the regulator to ensure that households are able to access enough energy for their needs and to encourage households to optimise their usage through home improvements and access to more intuitive tariffs. Furthermore, the Demand Flex Service<sup>12</sup> has proven that by creating products

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<sup>11</sup> <https://octopus.energy/power-ups/>

<sup>12</sup> <https://octopus.energy/press/saving-sessions-one-million/>

to help boost savings through nudging energy usage households can save money without rationing energy.

**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?**

Please refer to our cover letter as well as questions 3,4,7,9,10,11&13.

**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?**

Ofgem's duty is to "protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment"<sup>13</sup>.

We urge that Ofgem do not try to use the cap to address affordability issues through simple redistribution of costs, or look back to solutions of the past to regressively segregate those at risk – funded by taxing the rest. Rather, by using the 3 broad duties, as cited below, Ofgem can make meaningful and beneficial changes that ensure the market continually adapts to inclusively deliver products and services that support those with complex needs and to drive down costs for everyone.

**a) "working with government, industry and consumer groups to deliver a net-zero economy, at the lowest cost to consumers"**

Ofgem and government should be continually challenging what is fair and progressive, what ensures the cost of energy is not prohibitive to access and enables households to engage in a transitioning energy market. There are some relatively quick reviews that can drive down regressive costs – refer to questions 3 and 12 for more information.

Ofgem can work closely with industry and consumer groups to ensure that only efficient costs are passed through the system (for example refer to question 3 for more information on how Ofgem can ensure DNOs optimise voltage to significantly reduce costs to

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<sup>13</sup> [Our role and responsibilities](#)

households without disrupting supply). A review of how efficient the energy system is will ensure that any upgrades are both Net Zero focussed and priced fairly.

**b) “stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable”**

Although it is fair to recognise that when the cost of a vital service increases the reputation of that industry is likely to suffer it is also true that trust and reputation in our industry are at an all time low, partly for reasons beyond the cost of energy. Ofgem's focus on designing an outcomes based assurance methodology (as described in the competition framework) will ensure that suppliers are focussing on the complex needs of customers and should provide Ofgem with deeper and more relevant insight into customer needs (as a pose the current logic of reviewing gameable metrics that do not recognise outcomes, such as call answer time). Further as trust and reputation are driven upwards it will become true that customers demonstrate a willingness to trial new products and tariffs, enabling savings.

**c) “enabling competition and innovation, which drives down prices and results in new products and services for consumers”**

A focus on market design, for example to ensure there are cost reflective market signals and settlement regimes, will drive the commercial want/need to innovate.

As per question 9 Ofgem can consider how to regulate suppliers to inclusively create a range of tariffs, that enable households with differing needs to benefit from engaging in the market.

By ensuring healthy competition through 2024 and beyond Ofgem can ensure early adopter innovation can be iterated to the next level - where mass adoption of smart tariffs provide significant household savings through personalised tweaks to behaviour as well as allowing demand and supply to intuitively map more closely to renewable technologies.

## Standing charges in the non-domestic retail market

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

As part of the TCR non-domestic customers have been banded based on usage. Residual charges, that moved into customer related charges, are then collected at a rate according to the band a business owner is determined to fit into. The banding was set in 2020 based on 2018-2020 usage data and is fixed until 2026.

Whilst in concept Band 1 is the cheapest it very much depends on the meter points average usage pre Covid to determine really what that means in terms of tariff pricing for that customer – below visualised by Cornwall Insights<sup>14</sup>.

**Figure 12: Total small non-domestic TNUoS and DUoS charges following TCR implementation. Charges are based on forecast costs for 2023-24. Dashed line indicates the small non-domestic user profile used to forecast charges within this report**



<sup>14</sup> Third Party Charges – forecasts and indexes, presented to suppliers 15th December 2023 and shared with Cornwall Insights permission



For Non Half-Hourly customers this could represent a £4/day difference and for Half-Hourly, a more than £13/day difference. Further incurred charges are not protected by a price cap and as such while some suppliers use the bands as designed, simply passing through the cost incurred, others redistribute costs depending on which band of customer they are trying to attract, an industrial scale tease and squeeze.

Note, business owners can technically ask for a manual change of band by sending a letter to their DNO explaining why their consumption/agreed capacity has changed considerably (+/-50% of their assigned consumption/capacity value) – but it is not easy!

Our ethos is to always be fair and transparent with our customers, providing service, tools and tariffs they can trust. In this case the banding of standing charges is so confusing and complex that we have opted to offer a zero standing charge alternate product alongside a tariff that follows the banded standing charges methodology. This was designed as a direct result of feedback from businesses, who felt bamboozled by the current set up. The product allows micro businesses to trust that costs are truly related to their energy usage – not other businesses.

We think Ofgem can consider how to improve this, providing fair and transparent solutions that enable non-domestic customers to compare the market and trust they are not the victim of unfair pricing tactics. This can be achieved by:

- Reviewing the frequency of band review and the accuracy of data used
  - Simplifying the process for contesting and banding
  - Consider how to reduce residual costs (see q3 point d)
  - Review the TCR to understand if the desired efficiencies were gained and if banding fixed charges is the best way to recover incurred costs
-