

Ofgem Standing Charges – Call for Input.

About the Heat Pump Association:

The HPA is the UK's leading authority on the use and benefits of heat pump technology and includes the country's leading manufacturers of heat pumps, components, and associated equipment as well as energy companies, certification bodies, installers, and training providers. Proposals put forward by the HPA are developed closely with a membership base that represents around 96% of the heat pump market manufacturing share, including all the large multinational companies providing products to the UK market, ensuring that the proposals are workable and credible.

General thoughts on the call for evidence.

Please note that we have provided a general briefing on the Association's thoughts on standing charges and the changes outlined as we thought as our considerations do not relate to specific consultation questions.

The Heat Pump Association recognises the significant role of standing charges in the UK energy sector and understands the need for a balanced and equitable approach in the future. Heat pumps play a crucial role in achieving the transition to a low-carbon future and reaching the 2050 net zero goal. As Ofgem have a specific mandate to support the Government to meet its legal obligation to get to net zero by 2050 through the recently passed Energy Act 2023, we would urge Ofgem to consider the impact of any changes to the current standing charge funding, on the transition to the low carbon future through electrification. To support a low-carbon future, the lowest carbon heat must be the lowest-cost heat.

Currently, Great Britain has one of the highest electricity-to-gas price ratios (3.97¹) in all of Europe². The European Heat Pump Association recommends that a price ratio of two should be aimed for, to accelerate the electrification of heat³. Our research (soon to be published) shows that on average across Europe, for every increase to the price ratio of one, the sales of heat pumps per 1,000 households decrease by 6.4. This is significant considering only 1.9 heat pumps were sold per 1,000 households in the UK in 2022.

We see a major cause of this to be the price of electricity relative to gas, which is in part due to the disproportionate application of Environmental and Social Obligations as outlined in this consultation discussion paper.

Despite air source heat pumps (ASHP) being three times more efficient than conventional fossil fuel boilers, potential higher running costs exist as retail electricity prices are around four times higher than retail gas prices. The current structure of energy levies means consumers who make the positive decision to decarbonise their heating face higher levies on their energy bills. Early adopters of electrical heating systems, such as heat pumps, are forced to bear a disproportionately high share of the burden of energy levies, leading to an increased incentive to stick with fossil fuel heating, especially when considering the higher capital costs of a heat pump and the current cost of living crisis.

We therefore strongly urge Ofgem from taking any measure that would increase the unit price of electricity. If standing charges are rolled into per unit price of electricity, then those using more electricity, e.g. customers with heat pumps, could face higher bills relative to their counterfactual

¹ Ofgem (2023) [Energy price cap \(default tariff\): 1 October to 31 December 2023](#). Price ratio for direct debit consumer. Not inclusive of standing charges.

² Nesta (2023) [How the UK compares to the rest of Europe on heat pump uptake](#)

³ EHPA (2023) [EU Heat Pump Accelerator](#)

heating option which in turn could slow down electrification which in turn supports decarbonisation. We suggest this directly contradicts the specific mandate that Ofgem to support the Government to meet its legal obligation to get to net zero by 2050.

Ofgem should also consider that just as the standing charge currently provides an important means of recovering the costs of operating and maintaining power networks; the same mechanism could be used in the future to recover the costs of new low-carbon assets. Within the heat pump sector, one example is the development of shared ground loops or heat pump networks. These new in-street networks, supply ambient heat to homes to upgrade with their own heat pump and will be an increasingly common form of heating in the future, with as many as 9 million homes utilising them (Future Energy Scenarios 2023).

Shared ground loops that see a network of 100m-200m boreholes installed in the street are a capital-intensive endeavour, and just as with the current electricity and gas networks, it would be unrealistic to ask for consumers to pay upfront for this investment and their access to the network. Instead, a long-term 'network fee' is charged to recover SGL costs. At present, this is recovered via a fee entirely separate from energy bills, but as more households connect to these types of networks, SGL providers are looking to recover these costs via the standing charge on electricity bills to simplify the customer journey and cut out administrative costs. In approaching standing charges reform, Ofgem should consider the additional future roles that they are likely to play in recovering costs for new low-carbon infrastructure.