

Reference

Standing Charge Cfl

Date

18 January 2024

James Crump

Retail Directorate

Ofgem

Cadent Gas Limited

Pilot Way Ansty Park

Coventry CV7 9JU

United Kingdom

cadentgas.com

**By Email:** StandingCharges@ofgem.gov.uk**Ofgem Discussion Paper – Standing Charges: Call for Input**

We welcome this consultation on the structure of energy bills as we believe now is the right time to consider how the billing framework may need to change as we head towards a period of unprecedented change with the large scale roll out of heat decarbonisation.

We expect the bulk of the evidenced responses to this consultation to be from energy suppliers, consumers, and consumer organisations. We have however responded to a few questions below where we believe we can provide valuable and constructive insight and perspective, from our experience in delivering energy to over ten million homes and business, and from our leading role in planning for the transition of the gas grid to net zero.

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

We think a set of guiding principles is required to provide longer term stability and predictability on how costs will be treated in consumer bills. On one extreme, principles could accept that the suppliers are totally free to determine how to structure their offerings. At the other extreme, a highly prescriptive approach would be realised, giving suppliers much less room to innovate and compete.

A short term desire to lower the standing charge without applying long term underpinning principles or objectives, does not immediately feel like the best way to move forward, as it is likely to result in greater volatility and uncertainty in the future.

As well as facilitating stability and predictability, guiding principles will be increasingly valuable as we enter a period of huge change. The decarbonisation of heat will dwarf the changes to the energy system in the last few decades, and the impact on consumer bills during this transition will need to be carefully planned.

Cadent Gas Limited

Registered Office: Pilot Way Ansty Park

Coventry CV7 9JU United Kingdom

Registered in England and Wales

No.10080864

National Gas Emergency Service**0800 111 999* (24hrs)**

*Calls will be recorded and may be monitored

5000419 (01/13)

Page 1 of 4



The existing core principle of socialisation across network users must also be remembered when considering network costs: different types of homes and households are not currently a consideration in setting network tariffs, and bespoke cost reflective charges are not calculated house by house. Seeking to cherry pick benefits or avoid costs by considering specific household characteristics, would go against the existing socialisation principles, and would set a direction towards increasingly granular and tailored energy bills. Inevitably this means increasing numbers of winners and losers as you move away from an average charge for all. There is therefore a policy call to be made – do networks stick to smeared charges on an enduring basis, with the pros and cons shared across all, or are we now moving towards a much more granular approach? In terms of network charges, any fundamental change is likely to require amending the high level regulatory framework governing network charges.

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?

Vulnerable customers must always be a priority, however it is not clear, without a set of guiding principles, why a customer with low consumption should have special treatment. From a starting point of cost reflectivity, then any party requiring the security of a network connection, whether they use it or not, is driving a share of network costs. Even a home exporting energy requires the network as a route to market, and the network therefore has a value to them.

Any policy decision to allow a connected party to avoid network costs, will result in other parties funding other peoples' costs. This may be the correct outcome in some cases, but it is not clear what the justification is to draw such a conclusion at this stage, given the impact of increased costs on others.

It should be noted that any action to reduce the standing charge for a low consumption consumer, must consider the transition to net zero. A household may have low electricity use today as they utilise the gas network for their winter heating. They will require a significant use of the electricity network, potentially with extensive reinforcement and upgrading work, should they move to electrify their heat. Lowering the standing charge for low consumption consumers pre-electrification, would result in a bigger step change in their energy bill with the re-application of the standing charge, as well as the increase from higher electricity use post conversion.

There may also be an argument that a low consumption party that is allowed to avoid a network charge, that then sees its demand grow, should compensate the existing customers that have subsidised the



avoided network costs, and paid for the network to be available as the low use household steps up with their heat demand. If there is the expectation of significant increases of electrified heat, there could be merit for smoothing the transition, as well as for fairness, to keep the standing charge consistent pre and post heat electrification.

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

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?

This is a combined answer for Q9 and Q12

This Call for Input is timely as it allows issues to be highlighted at an early stage so that Ofgem can develop a robust regime that not only addresses the issues of today, but also the challenges and changes that we know will be coming over the horizon. It would be wasted effort to implement a change that addresses a short-term issue, which quickly gets overtaken by events as the requirement for more widespread change emerges over the next few years. Whilst we may not know the specifics of the future change, we do know that it will be far reaching.

The future of the gas grid and the decarbonisation of heat will have huge impacts on both electricity and gas bills. Any changes around the structure of consumer bills must therefore take account of these emerging issues to meet the stated aim in this Call for Input of minimising the impact of increases in standing charges.

The emerging issues include:

- Acceleration/deceleration of depreciation
- Network decommissioning costs
- Network conversion costs
- Disconnection costs
- In-house costs
- Declining numbers of bill payers

In addition, heat decarbonisation may warrant greater flexibility to move or share costs between electricity and gas. For example, moving 'levies' from electricity to gas in the short term, will not be viable in the long run if the number of gas bill payers reduces.

We therefore think that now is the time to consider the value of a wider review of energy billing; to ensure we have arrangements that are fit for purpose longer term. Should more fundamental change be needed, it could well require legislative change, which can be accommodated more easily if there is early work to design the future energy billing landscape. There will of course be other benefits of early work to plan for future change, including avoiding the negatives from a more short term reactive approach.



As well as managing the impacts of heat decarbonisation and the transition away from heating homes with natural gas, such a review could consider the pros and cons of more structural change to energy billing. For example, separating the billing of network costs from energy costs may be an option that more easily addresses the emerging challenges, provides greater flexibility through the transition, and could facilitate the support for vulnerable households. It may also unlock greater competition and innovation in areas.

A different approach could also facilitate more tailored whole energy system support schemes for the vulnerable, and would provide flexibility if required to smooth the impact of customers moving from one vector to another with a higher operating cost.

We note in the paper the statement that gas network (and SoLR) costs are included in the unit rate and not the standing charge. We are not entirely clear that this is correct, but if it is, and a similar outcome is favoured for electricity, then we would be keen to see the analysis of the gas sector to understand if there are any lessons learnt that can be read across into electricity.

We would be happy to discuss any of our comments further with you, if you would find this useful.

Yours sincerely

Stuart Easterbrook
Head of Net Zero Energy Frameworks, Cadent