

Sent by email to StandingCharges@ofgem.gov.uk

20 December 2023

Dear Ofgem

Thermal Storage UK response to call for input on standing charges

We agree with Ofgem's assessment that standing charges are a complex area and that energy suppliers have the ability to offer zero standing charge products if they can make this work commercially. We welcome the fact that Ofgem's review of standing charges is considering the impact on electric heating and flexibility from adjusting the fixed elements of the price cap. We recommend that an important outcome of the review is to promote (rather than penalise) electric heating from super-efficient heat pumps and highly flexible thermal batteries.

To achieve this goal, we recommend that Ofgem explores how the proportion of the total energy bill made up of the standing charge impacts the incentives for people to offer flexibility. Customer behaviour, such as demand response on time-of-use tariffs, can influence the unit rate they pay. But customers cannot influence the standing charge. If the standing charge is too high a proportion of the energy bill, then customers may see limited benefit from flexibility.

We expect that time-of-use-tariffs will become more prevalent over the coming years. These time-of-use tariffs coupled with energy smart appliances such as thermal batteries will encourage people to consume electricity flexibly. Time-of-use tariffs will need to optimise electricity consumption for electrification of both heating and transport. As the transition develops, time-of-use tariffs will need to accommodate electricity demand from a wide range of different products, including heating systems, electric vehicles, solar and batteries. In the medium-term, we expect to see increasing automation of load management within the home to find the most cost-effective and carbon-efficient way of keeping homes warm and EVs charged up.

It is fair that all customers pay towards access to and maintenance of the electricity grid, which is a shared social good. The quid pro quo is that electricity network operators are efficient and work hard to minimise or even reduce costs. This means networks maximising the use of flexibility and only investing in grid upgrades where capacity means this is necessary.

There is also a fairness question for people switching from fossil fuels to electricity for heating, including those supported by government schemes such as the Energy Company Obligation or Great British Insulation Scheme. To align with Ofgem's net zero duty introduced through the Energy Act 2023, we recommend that the structure of the price cap and energy pricing in general supports those customers switching to electric heating. This includes lowering their heating bills.

Looking beyond the politically salient issue of standing charges, we recommend that Ofgem reviews the availability of time-of-use tariffs in the energy retail market. This review would usefully consider the availability of type-of-use tariffs such as those for EVs and low carbon heating, as well as more dynamic time-of-use tariffs. We recommend that Ofgem looks to identify and reduce barriers to offering time-of-use tariffs. For these tariffs to exist at scale, we recommend accelerating delivery of market-wide half-hourly settlement, completing the smart meter roll-out and reforming local energy governance and distributed flexibility. This may require Ofgem mandating that energy suppliers provide at least one time-of-use tariff for domestic heating.

If you have any questions about this input, please contact me by emailing tomlowe@thermalstorage.org.uk. This response is not confidential and can be published on the Ofgem website.

Best wishes

Tom Lowe

Founding Director
Thermal Storage UK

More about Thermal Storage UK

Thermal Storage UK represents companies who have developed modern thermal storage products. We promote the use of smart thermal storage in buildings in the United Kingdom and other countries to achieve net zero. Our mission is to take the carbon out of heating buildings.

You can find out more about Thermal Storage UK at www.thermalstorage.org.uk

Questions

- 1) What are the barriers to suppliers using the existing flexibility under the price cap?**

No comment.

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

No comment.

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

We recommend that any Ofgem intervention on standing charges considers the impact on incentivising flexibility. This includes ensuring that any changes continue to provide an incentive to use electricity during off-peak hours.

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- 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?**

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

No comment.

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

No comment.

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

No comment.

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

No comment.

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

The evolving energy system needs to properly value flexibility, including heat flexibility, particularly valuing reductions in peak electricity demand in winter. Time-of-use tariffs encourage people to charge their smart thermal store overnight and to preheat their home by running their heat

pump during the day. Energy retailers have an important role in developing and delivering these time-of-use tariffs.

For these tariffs to exist at scale, we recommend accelerating delivery of market-wide half-hourly settlement, completing the smart meter roll-out and reforming local energy governance and distributed flexibility. This may require Ofgem mandating that energy suppliers provide at least one time-of-use tariff for domestic heating.

These time-of-use tariffs are more complex to compare. People will require more data to help them make the right choice of tariff and product. This might involve moving to real-time consumption data rather than monthly or quarterly billing. To ensure confidence, energy retailers will need to ensure that people can easily check billing data against metering data if required.

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

We have no comment on why suppliers do not offer rising block tariffs at present.

As highlighted by Ofgem, rising block tariffs involve cheaper rates for initial consumption and higher rates for additional consumption. We note that it could be complex to accommodate this type of tariff structure with price signals that value flexibility. If Ofgem explores rising block tariffs further, we encourage Ofgem to consider how these tariffs would send price signals for flexible assets, including through time-of-use tariffs.

There are ways to incentivise people to switch to electric heating through designing tariffs to lower running costs. For example, Thermal Storage UK recently worked with E3G on a proposal to lower the rate of electricity for customers on electric heating. This would separate out electricity consumed for heating homes from other electrical consumption.

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?

No comment.

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?

We recommend that Ofgem explores how the proportion of the total energy bill made up of the standing charge impacts the incentives for people to offer flexibility. Customer behaviour, such as demand response on time-of-use tariffs, can influence the unit rate they pay. But customers cannot influence the standing charge. If the standing charge is too high a proportion of the energy bill, then customers may see limited benefit from flexibility.

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For time-of-use tariffs to exist at scale, we recommend that Ofgem accelerates delivery of market-wide half-hourly settlement, completes the smart meter roll-out and reforms local energy governance and distributed flexibility. This may require Ofgem mandating that energy suppliers provide at least one time-of-use tariff for domestic heating.

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?

No comment.

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

We are slowly seeing the emergence of innovative tariffs in the domestic sector, including dynamic time of use tariffs and even type of use tariffs for heating products. These tariffs are rarely available to businesses, particularly smaller ones. This means that businesses are less likely to benefit from the flexibility that low carbon electric heating and transport can provide. We encourage Ofgem to explore what barriers prevent energy suppliers from offering flexible tariffs to non-domestic customers.