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Email to: StandingCharges@ofgem.gov.uk

19 January 2024

Dear James,

Standing Charges: Call for Input

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewables, including onshore, offshore wind and solar generation, and energy storage. With around six million electricity and gas customer accounts, including residential and business users, EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to respond to Ofgem's Call for Input on standing charges, especially given the ongoing affordability challenges confronting many customers. EDF has already pledged a total customer support fund of more than £40 million in 2024, which includes the effective rolling back of standing charges to pre-energy crisis levels for some of our most vulnerable customers this winter.

As Ofgem acknowledge, the debate around the inclusion of standing charges in energy bills is, however, complex. Standing charges exist in the retail energy market today for legitimate and economically rational reasons, just as they do in many other markets, including other utilities like water (if supply is metered). For example, standing charges ensure that suppliers can efficiently and effectively recover the high and growing levels of fixed costs they incur serving each customer. This includes suppliers' fixed operating costs but also the growing costs associated with maintaining and developing energy networks to ensure they can support GB's Net Zero ambitions. These costs need to be paid regardless of how much or how little a customer consumes. Therefore, there are inherent commercial risks and inefficiencies in recovering such costs volumetrically.

Limiting suppliers' ability to recover such costs on a fixed basis (i.e., via standing charges), without reform to the significant fixed charges suppliers are charged, jeopardises a supplier's ability to recover their costs and in turn, potentially their financial resilience. Such limitations,

also risks inefficiently inflating overall end prices for consumers, when compared to leveraging such costs on a fixed basis as is currently the case, by creating the need for additional risk premia to mitigate the potential risks of under-recovery of fixed costs.

With this overarching rationale in mind, we have set out below EDF's further high-level considerations on the case for reform in both the domestic and non-domestic supply markets, with a particular focus on the likely impacts on consumers and GB's Net Zero ambitions.

Standing charges and the non-domestic market

EDF supports Ofgem's view that standing charges in the non-domestic sector should be out of scope for this Call for Input and we see no evidence of any need for intervention. As Ofgem is aware via engagement in the ongoing market review, customers in the non-domestic market are extremely diverse and there are significant differences in the range of tariffs and products available across the sector. Ofgem's market review findings acknowledged this diversity and have identified other priorities. EDF will continue to engage constructively with Ofgem on reforms to the non-domestic sector emerging from the market review. For this reason, the rest of this response focuses on the key issue of change for domestic customers.

Standing charges and the domestic market

We support Ofgem's focus on the affordability issues faced by domestic customers, and we acknowledge that through this Call for Input Ofgem is exploring what it can do within its remit to address the affordability challenge. Many households remain significantly concerned about paying their energy bills. The number of indebted customers and the average debt per customer are both rising. However, as explored below, standing charge reform will not rectify this situation or deliver the levels of support customers need. Rather as Citizens Advice notes¹, it may lead to unintended consequences that Ofgem does not have the tools to address, especially in electricity.

Instead, the priority should be continuing to push for Government to introduce meaningful and targeted support to truly tackle the domestic affordability challenge while avoiding further burden on other energy users. Affordability can only be addressed via a meaningful Government-funded social tariff, which makes best use of Government data to target support at those most in need. We note that a social tariff could include support delivered via standing charges, coupled with measures to apply support volumetrically.

Impact of reform on domestic electricity customers

Based on a review of the data presented in the Call for Input, for electricity, focusing on reforming standing charges for all customers will not only fail to provide the necessary support for households in need, but will also have detrimental impacts on low-income households with higher consumption, many of whom are among the most vulnerable

¹ [Citizens Advice, Why standing charges are fairer than you may think, 2023](#)

households. Electricity needs are diverse, and income and consumption are poorly correlated. Ofgem's analysis provides evidence that 1.2 million high-consumption, low-income households would face a sizeable bill increase from a transfer from fixed to volumetric cost recovery.

Meanwhile, those embracing the need to electrify their transport and heating to achieve Net Zero would also face adverse effects from the shifting of electricity network cost recovery from standing charges to unit rates. This is due to the higher electricity consumption levels they require, undermining GB's efforts to decarbonise and meet our Net Zero goals.

Standing charge reform would, therefore, appear to be a poor substitute for meaningful Government action on electricity bills (e.g., a social tariff) and would have unintended negative consequences for many electricity consumers.

Impact of reform on domestic gas consumers

We do, however, recognise that the evidence presented by Ofgem could support the case for reforming some of the fixed costs that contribute to domestic gas standing charges. There is, for example, a clearer correlation between consumption levels and socioeconomic wealth, with no high-income households gaining from a standing charge to unit rate transfer. Likewise, such an intervention causes less detriment across the socioeconomic spectrum overall. However, caution is needed to ensure that financially vulnerable individuals who may be disadvantaged by such a change are supported through additional targeted financial support or by enabling further access to energy efficiency measures.

Placing more recovery of gas costs on gas unit rates could also provide a further incentive for consumers to insulate their homes and/or switch to heat pumps. The running costs of heat pumps, compared to gas boilers, remain a major barrier to adoption, even with the welcome support delivered by the Boiler Upgrade Scheme. Narrowing the cost disparity between the two fuels through the transfer of costs from gas standing charges onto unit rates while leaving electricity unchanged would help accelerate heating decarbonisation.

However, while a gas standing charge to unit rate cost recovery transfer improves the financial case for the decarbonisation of heating, it is unlikely to be sufficient on its own to drive significant change. The disproportionate burden of Government policy costs on electricity consumers stands out as the driving factor influencing this ratio. These policy costs imposed on consumer bills, allocated to support various Government schemes, are disproportionately placed on electricity compared to gas. To have a meaningful impact, Ofgem and Government must also progress work to rebalance domestic legacy social and environmental policy costs from electricity to gas to improve the price signals needed for decarbonisation and the efficient use of energy.

I trust you find our comments above helpful. Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Jake Forrest or myself. I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink, appearing to be "John Mason", enclosed within a thin black rectangular border.

John Mason

Senior Manager (Price Regulation and Market Dynamics)

Attachment

Standing Charges: Call for Input

EDF's response to your questions

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

The risk of material supplier financial losses, which is more pronounced for tariffs under the Default Tariff Cap (DTC), discourages suppliers from widely offering low or zero standing charge tariffs.

Limiting the ability of financially responsible suppliers to recover fixed operational costs in a fair and appropriate manner without addressing the fixed charges suppliers face could jeopardise suppliers' financial resilience by increasing commercial risk. Following Ofgem's Targeted Charging Review (TCR), the fixed residual element of network costs incurred by suppliers on a per-household or per-site basis has increased significantly. It is fair and reasonable for suppliers to recover these and other fixed costs through the electricity standing charge on a cost-reflective basis.

Suppliers continue to operate in a financially challenging environment and face enduring risks because of continued market volatility and high prices while operating under the DTC. A larger proportion of growing network costs recovered by suppliers through volumetric means would introduce an additional element of volatility to forecasting, which is already significantly challenging, risking under recovery of costs by suppliers. Standing charges allow suppliers to recover fixed costs predictably and equitably and have a continued role to play in ensuring the energy market is financially resilient. Tariffs being offered at below-cost level risks repeating the recent market instability caused by failed suppliers and are not in the long-term interests of customers.

Given the licence requires tariffs under the DTC to be free of exit fees, low or zero standing charge variable tariffs could also create opportunities for customers to avoid costs by exploiting low or zero standing charge tariffs based on seasonal consumption patterns and/or living arrangements for consumers with multiple properties. There could, for example, be an incentive from a customer's perspective to be billed on a low standing charge tariff through the summer months, or when a property is vacant, when energy use is low, thereby benefiting from the low standing charges. Then during the winter months, when energy use is higher, switch to a tariff with a conventional standing charge structure, thereby benefiting from the reduced unit rates that tariff brings. Therefore, risk lies in the under-recovery of fixed costs from such customers in the absence of a wider reform of how suppliers are charged for network charging or cost levelisation. However, we note that even if costs were recovered through levelisation, this too would further increase bills for high-consumption users which, as Ofgem has identified, include a proportion of low-income households.

Careful consideration and a balanced approach to any future reform are, therefore, crucial. Any decision should align with the broader goal of ensuring fair energy pricing, maintaining supplier financial resilience, facilitating Net Zero objectives, and addressing the needs of low-income customers, which broad changes to standing charges does not achieve. We continue to assert that the only sustainable and enduring approach to tackling the affordability challenge faced by some customers without increasing bills for all customers is a Government funded and targeted social tariff to support domestic customers.

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

Suppliers are cautious about offering varied standing charges for tariffs not covered by the price cap for the same reasons as for tariffs under the cap. There are inherent commercial risks in recovering a greater proportion of fixed costs volumetrically and risk of detriment to high-consumption domestic customers (who would be expected to subsidise any such approach if suppliers were to avoid financial losses).

Following the TCR, suppliers are faced with more fixed network charges levied on a per-household or per-site basis. It is reasonable for financially responsible suppliers to recover such costs through a fixed standing charge to ensure cost reflectivity, regardless of whether tariffs are under the price cap.

Offering tariffs with different standing charge or charge structures also introduces complexity in forecasting and cost recovery. If suppliers were required to adopt a volumetric approach to recover all fixed network costs, the added volatility could result in under or over recovery of costs. Consequently, this would necessitate pricing this risk into unit rates, leading to higher overall costs for customers for tariffs outside of the DTC.

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

To improve the provision for lower standing charges under the price cap Ofgem could consider the removal or reform of the specific fixed costs suppliers incur. For example, revising the method by which network costs are recovered from suppliers, transitioning from a fixed charge model to a volumetric approach. This would mean that costs vary in line with the amount of energy used, enabling suppliers to offer tariffs with lower standing charges while still covering network costs based on actual energy consumption. While these adjustments could lead to a more flexible and potentially lower-cost structure for certain customers, others would be detrimentally impacted.

Many households face high electricity standing charges due, in part, to social and environmental policy costs embedded within standing charges. These policy costs, which fund various initiatives, including energy efficiency programmes and subsidies for renewable energy, constitute part of electricity standing charges and a significant part of the overall bill.

Consideration should be given to shifting some specific policy costs to general taxation. This would remove the need for energy suppliers to recover such costs and allow for lower standing charges for all domestic consumers, alleviating some of the pressure caused by standing charges for low-income, low-consumption households. If these costs were redirected to general taxation, it would also result in a less regressive approach to funding these initiatives and simultaneously encourage electrification. This is in direct contrast to the outcomes associated with the transfer of costs recovered through electricity standing charges onto electricity unit rates, which would exacerbate affordability issues for low-income, high-consumption individuals and disincentivise electrification. Likewise, removing Value Added Tax (VAT) from standing charges would remove 5% of the costs associated with standing charges.

Despite the potential advantages of addressing affordability, the Government has indicated a reluctance to shift policy costs from electricity bills to general taxation to date. Given this, EDF is also supportive of moving certain policy costs, such as those associated with Energy Company Obligation, Feed In Tariff and Warm Home Discount, onto gas bills to rebalance policy costs between fuels. The comparatively higher share of policy costs on electricity is damaging the price signals for customers to decarbonise. It is illogical to continue placing costs for new and existing schemes disproportionately on domestic electricity bills if incentives to electrify heat and transport are to be sustained.

Ofgem should urge Government to progress work to rebalance social and environmental policy costs to make standing charges more affordable. This approach should be designed not only to combat current affordability issues but also to support the UK's transition to a net-zero carbon economy in a way that is equitable and considers the varying needs of all households across the socioeconomic spectrum.

EDF would not be supportive of any move from Ofgem that mandates suppliers to provide a zero or low standing charge tariff option to some of their customers. This would result in suppliers making financial losses (or gains) and risks providing an incentive for suppliers to lose these low-consumption customers if costs are not recovered. If costs were recovered through levelisation this would further increase bills for high-consumption users which, as Ofgem has identified, includes 20% of low-income households.

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?

Ofgem and the industry carefully considered the impacts of the TCR on customers. The principle behind the TCR is that all users of the network should contribute to the costs of maintaining reliable access to electricity networks, regardless of their level of use. The

sentiment shared in Ofgem's TCR decision paper² was that a targeted approach for supporting vulnerable customers is more appropriate, including low-consumption households that face a higher relative cost burden following the TCR.

A focus on changes to electricity standing charges for all customers to mitigate the impacts of the TCR will not deliver the support customers need. 1.2 million high-consumption, low-income households, identified in the discussion paper, would face a significant bill increase following the hypothetical 50% transfer of costs from standing charges to unit rates. The detriment experienced is on average twice as large as the bill reduction experienced for those in the same income group who are high consumers. These disadvantaged households, which represent just under 20% of low-income households, will house vulnerable individuals, such as those with health conditions that require high energy use. A transfer of electricity standing charges onto unit rates would intensify the financial burden facing such households without resolving the broader affordability challenges encountered by low-consumption, low-income customers.

We agree with Ofgem that targeted support measures, such as the implementation of a taxpayer-funded social tariff, which could include lower standing charges, would provide more valuable and appropriate support to more households. This would better tackle the affordability issue, not just for those with low consumption, without having detrimental impacts for high-consumption users.

The TCR has also brought about significant advantages, primarily in reducing unit rates and overall relative electricity costs for most consumers. However, due to the energy crisis coinciding with the TCR rollout, these benefits have been obscured. Now that domestic consumers with very low consumption bear a share of fixed network costs, which is more in line with the cost of maintaining access to electricity networks, this creates fewer costs that must be recovered volumetrically and reduces system inefficiencies. As Citizen Advice notes³, the growing adoption of microgeneration technologies created a risk that without intervening TCR action, a disproportionate share of fixed network costs would be borne by ever fewer consumers. Likewise, households that have embraced the electrification of their heating and transport have benefited from shifting the recovery of network costs to standing charges due to the higher electricity consumption levels they require. Diluting any financial incentives to decarbonise risks halting further progress towards Net Zero.

We do, however, recognise that the evidence presented by Ofgem could support the case for reforming some of the fixed costs that contribute to domestic gas standing charges. The socioeconomic impact is less pronounced, and the benefits are clearer. In a hypothetical 50% fixed to volumetric transfer, while more households might experience a bill increase, the average increase is only £6.85, one-third of the average increase for electricity bills. Similarly, low-income households see an average increase of £0.68, and no high-income households

² [Ofgem, Targeted charging review: decision and impact assessment, 2019, pp.10](#)

³ [Citizens Advice, Why standing charges are fairer than you may think, 2023](#)

experience a bill reduction. However, careful consideration from action on gas standing charges is also necessary. If gas as a domestic fuel is either phased out or changed to support other fuels, this could significantly increase costs, especially if such costs are borne by an ever-reducing number of customers. Additional support measures, such as a social tariff and broader access to energy efficiency schemes, would also likely be necessary to assist customers who might be adversely affected by any change to gas standing charges.

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

As described in the discussion paper, price differences for domestic customers on default tariffs are set on a cost-reflective basis, reflecting the regional network cost differences suppliers incur. DUoS residual charges are largely the driver of regional variances in electricity standing charges.

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

Yes. An example is the social tariff system implemented by water companies. While imperfect and not appropriate for use as a blueprint due to the complexity of the energy market, it does provide bill reductions for eligible customers facing affordability issues.

The energy industry can also build upon previous success in its own market to provide a foundation for the implementation of a meaningful social tariff that adequately targets support. For example, components of schemes already used, such as the DWP data matching used to deliver the Warm Home Discount (WHD) and the volumetric discounting and settlement process applied through the Energy Price Guarantee (EPG). In 2022, the WHD scheme in England and Wales changed to create the Core Group 2, encompassing approximately 1.9 million low-income customers with high energy costs identified through data-matching conducted by the Department for Work and Pensions and the Valuation Office Agency. This use of Government data is a clear indicator of the value it can bring to tackling the affordability issues faced by domestic customers.

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

See answers to Q1 and Q2. There are inherent material commercial risks in recovering a greater proportion of fixed costs volumetrically and risk of detriment to high-consumption domestic customers.

Standing charges have a legitimate role to play in the retail energy market. They help industry recover the fixed operational costs of serving each customer and supporting network build to keep all consumers connected and advance progress towards Net Zero targets. EDF wants to see a retail market where people can get the support they need while ensuring Net Zero remains achievable for all.

Additionally, adding complexity to the domestic supply market through the addition of complex tariff structures makes the prospect of engaging in the market unattractive for many domestic customers. The Competition and Markets Authority previously highlighted⁴ that the challenge of assessing information was a key factor contributing to customers' difficulties in effectively participating in the energy market and identifying suppliers with lower prices. A simpler energy market can help to increase consumer confidence and engagement to promote positive outcomes and conversely, a complex market with varied tariff structures may make it more difficult, even for engaged consumers, to choose the best deal for their circumstances.

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

See responses to Q1, Q2 and Q7.

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

Broader tariff options in and of themselves do not necessarily improve customer outcomes, nor can they address the affordability issues faced by many. Financially responsible suppliers have a duty to recover incurred costs, and any move from Ofgem to mandate the provision of low or no standing charge tariffs to some or all customers could jeopardise suppliers' financial resilience. Any limitation on recovering fixed costs would amplify commercial risk and simultaneously stall progress towards Net Zero by diluting the financial benefits associated with electrification while failing to address affordability issues.

In addition, we must ensure that tariffs are not presented in the market, which could result in some customers being treated unfairly. A recent example of where this took place was before the Ban on Acquisition Tariffs (BAT) was introduced. Increasing the range of tariff offerings is not in itself always a beneficial development. Previously, tariff offerings for new customers had significant price differentials across many suppliers from those offered to existing customers. This was not fair for existing customers and drove some suppliers to implement unsustainable pricing practices that ultimately resulted in significant levels of supplier insolvencies, leading to mutualisation costs that have had to be paid by all customers. During the period the BAT has been in place, there has not been any noticeable return to unsustainable pricing practices in the market. It is for this reason that EDF support the BAT being retained until there is significant market reform that could make the removal carry less risk.

⁴ [Competition and Markets Authority, Energy Market Investigation: Final Report, 2016](#)

Rather than focus on standing charge or tariff interventions, Ofgem should instead focus on the enablers of innovative and dynamic tariffs and products. These enablers include the following:

- **Price Cap Reform** - EDF wants to work constructively with Ofgem to develop and introduce measures that promote a healthy, well-functioning market. Such a market should allow efficient and sustainable businesses to attain a fair margin and enable continued innovation and investment to the benefit of consumers. The price cap, as Ofgem acknowledge, is an imperfect instrument in this regard and one that drives additional risk for suppliers and costs for consumers. It is therefore critical that Ofgem, together with Government, urgently explore regulatory change that can provide confidence to responsible investors that an appropriate and fair return can be made in this market while at the same time ensuring that the correct and most appropriate consumer protections are in place.
- **Social Tariff** - Alongside reform of the price cap, the Government and Ofgem must take steps to mitigate the affordability crises that many financially vulnerable customers face. Such a scheme must be progressive and paid for out of general taxation to avoid further burden on energy users. If bill funded, it is essential that there is no incentive for suppliers to lose these customers and that costs are levelized (as per WHD). EDF recommends that it be targeted to limit costs to taxpayers and support the most vulnerable. Government led targeting, using Government held data, would be the most appropriate approach, and to ensure consistency, a single scheme should be mandated across all suppliers to ensure equal treatment of customers and fair competition.
- **Smart meter rollout** - GB's Net Zero ambitions rely upon a smart and flexible energy system, for which a successful, complete smart meter rollout is an essential prerequisite. The smart meter rollout has already achieved a great deal, and retailers continue to strive to meet the ambitious targets. However, the current framework was set up on the basis that most consumers would willingly accept a smart meter and did not take into consideration the ongoing upgrades that this technology requires. To date, the rollout has been driven by suppliers working to engage individual customers to accept a smart meter. This model will not be an efficient way to complete the rollout. Ofgem and Government must agree on a new framework to complete the rollout of smart meters, reaching every home and business, in the most efficient way. Possible options could include exploring how geographical-based approaches could drive efficiencies and keep costs minimised for consumers, and how policy interventions can increase consumer acceptance of smart meters.
- **Market-wide Half Hourly Settlement (MHHS)** - many of the benefits of tariff innovations such as demand-side flexibility will only be fully realised when MHHS has been implemented and all consumers have their energy settled based on half hourly

consumption data. The transition to the MHHS arrangements is not due to be completed until Q4 2026.

- **Green tariff reform** - It can be challenging for consumers and market participants alike to make decisions on which tariffs to sign up to, or which technologies to invest in, due to the use of vague terms such as 'green' to label such products. Customers need clear, credible, and easy to understand information to allow them to make decisions about their energy supply and whether it is making a meaningful contribution to Net Zero. A tariff-level label applied consistently across all tariffs and all industry participants within the domestic retail energy market would promote clarity and comparability of carbon content for consumers when making purchasing decisions and drive further innovation in this space.

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

See response to Q7.

As Ofgem notes, while there are no suppliers that currently offer rising block tariff products to domestic retail customers, there are sound reasons for this. For example, offering a tariff where customers are charged at progressively higher unit rates for electricity as their volume of consumption increases does risk making the market more complex and potentially detrimental for some.

Rising block tariffs would lead to higher energy users paying significantly more for their energy. Furthermore, over time a household's consumption is not static and as such, a household that may benefit from a rising block tariff in one period may be detrimentally impacted by such a tariff in the next. The length of any such period could range from weekly, monthly to annual consumption. Which approach is used could result in vastly different outcomes for different customer groups, depending on how varied their consumption is over these time periods. Overall, this would also add significant complexity for energy users when comparing to other tariffs on the market and what would be the most appropriate, informed choice in such circumstances.

This complexity could be a key reason why such tariffs have not been offered in the market to date. In addition, we note that if there was significant customer demand for such tariffs, then it would be expected that at least one supplier would have tried to capture such demand at some point. However, EDF is not aware that there is such a demand or that such a tariff would bring broader customer benefits than more traditional tariff structures.

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?

As standing charges are a fixed cost for customers, they do not directly provide incentives to reduce consumption or use energy efficiently. However, standing charges in their current form do not negate the need for energy efficiency improvements, far from it. Indeed, a bill that contains a standing charge in their current form may marginally dampen the desire to reduce energy use, but unit rates make up c.84% of a dual fuel customers bill at typical consumption under the DTC⁵ and c.77% at low consumption⁶. Therefore, there is still substantial value in both financial and emissions terms that can be saved by customers, or conversely be wasted through poor energy efficiency, including for low consumption households.

In addition to the direct impacts, the reasons below highlight why standing charges for electricity indirectly accelerate progress towards Net Zero and why gas standing charges do not.

Transferring costs from gas standing charges to gas unit rates in their entirety would reduce the payback time by up to 13% for insulation measures. For example, taking the payback period for cavity wall insulation down from 10.5 to 9.2 years for a typical sized property⁷. In addition, this has the dual benefit of not only reducing bills for customers self-financing insulation but also improving the payback from energy efficiency schemes such as the Great British Insulation Scheme, the Local Authority Delivery scheme, and the Social Housing Decarbonisation Fund. For these reasons, there is a better case for further exploring how some fixed costs that contribute to gas standing charges could be reformed, as there is a clearer benefit to emission reductions. However, caution is needed to ensure that individuals who may be disadvantaged by such a change, through no fault of their own, such as those living in inefficient, leaky rented homes or those unable to adopt heat pumps, are adequately supported through a targeted social tariff or have easier access to energy efficiency measures.

Conversely, any change to move electricity charges from a fixed to volumetric basis would unfairly impact those who have taken steps to decarbonise their heating and transport use via electrification. Due to the higher electricity consumption levels electric vehicle users require, they would be detrimentally impacted by higher unit rates. Diluting any financial incentives to decarbonise risks halting further progress towards Net Zero. Placing a larger proportion of gas cost recovery on gas unit rates, while keeping them in place for electricity, would provide further incentives for consumers to switch to electrifying their heating and reduce emissions. The running costs of heat pumps, compared to gas boilers, pose a major barrier to adoption, with each unit of electricity being 404% more expensive⁸ than each unit of gas, one of the highest disparities in Europe. For illustration, transferring all the domestic gas standing

⁵ Based on Q4 2023 price cap

⁶ Low consumption defined as 7,500kWh of gas, 1,800kWh of electricity annually

⁷ Based on EDF internal analysis at Q4 2023 price cap

⁸ Based on Q4 2023 price cap

charge recovery onto gas unit rates, while holding them constant for electricity, would narrow the cost disparity of the two fuels down to c.354%⁹.

While a gas standing charge to unit rate cost recovery transfer improves the financial case for the decarbonisation of heating, we also recognise that it does not go far enough. The disproportionate burden of levies on electricity consumers stands out as a significant factor influencing this ratio. These policy costs imposed on consumer bills, allocated to support various Government schemes, are disproportionately placed on electricity compared to gas. Inclusive of VAT, energy levies constitute 16% of the average electricity bill and only 4% of the average gas bill. This means 87% of domestic policy costs are being recovered through households' electricity bills, with just 13% coming from gas bills¹⁰. This distortion in the allocation of levies exacerbates the ratio of electricity to gas prices and acts as a disincentive for decarbonisation. Ofgem should urge Government to progress work to rebalance domestic legacy social and environmental policy costs to improve the price signals needed for decarbonisation and the efficient use of energy.

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?

No. A focus on reform of standing charges will not deliver adequate support for customers struggling with their energy bills, nor will it deliver the necessary support to those most in need. As the Ofgem data in this Call for Input showcase and Citizens Advice have highlighted¹¹, there are also significant risks following an intervention from Ofgem on standing charges for many households, including low-income households, that Ofgem does not have the powers to mitigate. The 1.2 million high-consumption, low-income households identified in the discussion paper would see a significant bill increase following the hypothetical 50% transfer of costs from standing charges to unit rates; the detriment experienced being on average twice as large as the bill reduction experienced for those in the same income group. These disadvantaged households, which represent just under 20% of low-income households, include vulnerable individuals, such as those with health conditions that require high energy use. With the transfer of electricity standing charges onto unit rates, the financial burden facing such households would intensify, without resolving the broader affordability challenges encountered by low-consumption, low-income customers.

We note that DESNZ is currently providing a minimal levelisation discount on standing charges for prepayment customers through the EPG, helping many of those facing fuel poverty this winter. However, delivery through the EPG is a stopgap, and we welcome Ofgem's consultation on a more permanent solution to the levelisation of costs between payment methods. Again, however, this limited intervention will be insufficient to tackle the

⁹ Based on EDF internal analysis at Q4 2023 price cap

¹⁰ [Energy UK, A vision for a customer-centric energy market, 2023](#)

¹¹ [Citizens Advice, Why standing charges are fairer than you may think, 2023](#)

affordability issues facing many households, including those with a pre-payment meter, necessitating the need for wider and more substantial targeted Government intervention.

With a targeted social tariff, alongside price cap reform, Ofgem and Government can ensure that customers not only have the right protections and support in place, but that suppliers can make appropriate and fair returns in this market and attract the investment necessary for Net Zero. Introducing a meaningful, Government-funded social tariff to support those consumers most in need must, therefore, be a priority for Ofgem and Government.

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?

Neither Ofgem nor suppliers currently have the necessary data or powers to comprehensively identify the complex needs of vulnerable customers.

Components of schemes previously delivered in the energy sector, such as the targeted support measures used to deliver the WHD, could, however, provide the basis for future action. Government should now build on the WHD's data matching success and establish a single, central source of customers in vulnerable circumstances to enable all utilities to better target support to those who need it in a consistent way. This should be based on data available from Government sources e.g., relevant benefits and health data. A cross-utility Priority Services Register maintained by Government and built on DWP, NHS, and HMRC data would help to ensure that customers' needs are identified, and appropriate support provided, without customers needing to register with multiple organisations.

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

EDF supports Ofgem's view that standing charges in the non-domestic sector should be out of scope in this Call for Input and we see no evidence for any intervention. As Ofgem is aware via engagement in the ongoing market review, customers in the non-domestic market are extremely diverse and there are significant differences in the range of tariffs and products available across the sector. Their energy usage profiles can vary vastly, ranging from levels similar to those of domestic consumers to consumption exceeding hundreds of thousands of kilowatt hours annually. Ofgem's market review findings have acknowledged this diversity and identified other priorities.

EDF will continue to engage constructively with Ofgem on reforms to the non-domestic sector emerging from the market review and pending post implementation review of the TCR. We welcome the chance to engage with Ofgem to ensure the most appropriate outcomes for our non-domestic customers. Any action resulting from the post-implementation review of the TCR should not extend to major changes to standing charges for the non-domestic sector, such as their removal. Doing so could adversely affect non-domestic customers, in addition to

the wider risks shared in this letter regarding market destabilisation and through increasing suppliers' commercial risk.

EDF
January 2024