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## Appendix 5: Draft Impact Assessment

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# 1. Introduction

This chapter sets out the structure of our draft Impact Assessment and our approach.

- 1.1 This document sets out the Impact Assessment (IA) of our proposed options in setting the allowances across the four key areas of our operating costs review: core operating costs, debt-related costs, smart metering related cost changes, and pass-through industry charges. A summary of our proposed options and rationale are detailed in the Energy price cap operating cost and debt allowances consultation: overview paper.
- 1.2 In this IA, we also assess the impact of an alternative benchmark option for core operating costs, and alternative allocation options for debt-related costs.
- 1.3 Our analysis focuses on the impact on customers and suppliers, as well as an assessment of how our IA options would affect competition in the market. Moreover, we consider the wider impacts against Ofgem’s statutory duties and have assessed matters which we must have regard to in Chapter 1 of the overview paper.
- 1.4 We have set out the impacts across payment methods: Standard Credit, Direct Debit and Prepayment meters (PPM). Along with the level of allowances, payment method has been used as the variable factor in this IA, as we consider this to be the main driver of differences in impacts for customers and suppliers.
- 1.5 Our IA options are generally assessed against the status quo - “do nothing”. We define this as the operating costs allowance in the current price cap period 13a (1 October to 31 December 2024). We note that this definition includes the following temporary debt allowances:
  - The existing additional allowance in the cap for bad debt costs associated with Additional Support Credit (ASC) provided to PPM customers.<sup>1</sup>
  - The 12-month float allowance for additional debt-related costs incurred from April 2022 to March 2024.<sup>2</sup>
- 1.6 This enables us to assess our IA options against a baseline that is reflective of the current operating costs allowance. However, we note that any proposed changes

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<sup>1</sup> Ofgem (2024), Additional Support Credit extension.

<https://www.ofgem.gov.uk/consultation/additional-support-credit-extension>

<sup>2</sup> Ofgem (2024), Energy price cap additional debt costs review decision.

<https://www.ofgem.gov.uk/decision/energy-price-cap-additional-debt-costs-review-decision>

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would likely be implemented from July 2025, and therefore the actual impacts would likely vary to some degree from those presented below.

- 1.7 In places we also make use of a second “do nothing” counterfactual, where the temporary debt allowances fall away, leaving just the permanent price cap allowances. This demonstrates the baseline of existing policy, ie if we were to not make any changes to permanent allowances or replace or extend temporary allowances.
- 1.8 Our approach to this IA is based on Ofgem’s guidance on impact assessments.<sup>3</sup> The IA is structured as follows:
- IA policy options (Chapter 2)
  - Impacts on customers (Chapter 3)
  - Impacts on suppliers (Chapter 4)
  - Impacts on competition and innovation (Chapter 5)
  - Public spend and Public Sector Equality Duty (Chapter 6)
- 1.9 We welcome stakeholder feedback on our methodology and results.

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<sup>3</sup> Ofgem (2020), Impact Assessment Guidance.  
<https://www.ofgem.gov.uk/energy-policy-and-regulation/measuring-impact-our-policy-decisions>

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## 2. IA policy options

This chapter sets out the IA options which we have considered in this IA.

2.1 This section outlines the four policy options which we have considered in this IA:

**Table 1: IA option list**

Options	Definition
<b>Option 1</b>	Minded-to position across all four operating cost sub-components (core operating costs, debt related costs, smart metering costs and pass-through industry charges).
<b>Option 2</b>	A Lower Quartile (LQ) benchmark for core operating costs (instead of a Weighted Average (WA) benchmark), combined with our proposed options for the remaining three operating cost sub-components.
<b>Option 3</b>	Uses suppliers' reported cost allocations across payment methods for debt-related costs (as alternative to using current cap differentials), combined with our proposed options for the remaining three operating cost sub-components.
<b>Option 4</b>	Uses equal allocation across payment methods for debt-related costs (as alternative to using current cap differentials), combined with our proposed options for the remaining three operating cost sub-components.

2.2 Options 2, 3 and 4 allow us to assess the range of approaches we could take to set the key parameters of this review, which ensures that the IA remains proportionate, clear and comprehensive.

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## 3. Impact on customers

This chapter sets out the direct impacts and distributional impacts of our IA options on default tariff customers. We also discuss the potential impacts on uncapped customers.

- 3.1 This chapter outlines the impacts of our IA options on customers. It focuses on the direct impacts on default tariff customers' bills, and presents our analysis of the distributional impacts, to understand how different types of customers are affected. Additionally, we discuss the potential impacts on uncapped customers.

### Bill impact on default tariff customers

- 3.2 The default tariff cap ('the cap') was introduced on 1 January 2019 and protects 26 million customers on standard variable and default tariffs.
- 3.3 Generally, customers paying for energy via Standard Credit or PPM tend to have a differently priced tariff than customers paying for energy by Direct Debit due to differences in cost-to-serve assumptions. We observed this in the market before the cap was introduced and have continued setting the cap at different levels across these payment types since the cap's introduction. Therefore, the impacts of our benchmarking and allocation decisions may vary between payment methods, resulting in a reduction in bills for most customers and a small increase in bills for others.
- 3.4 In this section, we have considered the interaction of decisions with levelisation phase 1, which aims to address the higher costs typically borne by PPM customers by adjusting the standing charges for Direct Debit and PPM customers so that they are equal for customers.<sup>4</sup> This policy is already in place and would automatically apply on top of decisions taken in this review.
- 3.5 Given this levelisation mechanism has been in place from April 2024, we have presented the post-levelised bill impacts on customers as we consider that this reflects what customers would actually be paying across our IA options. It is important to note that we are not assessing the impact of levelisation as we consider that this is only a mechanical consequence of the policies which we are proposing and have considered.

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<sup>4</sup> Ofgem (2024), Decision on adjusting standing charges for prepayment Customers. <https://www.ofgem.gov.uk/decision/decision-adjusting-standing-charges-prepayment-customers>

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- 3.6 We have also included the pre-levelised customer bill impacts for completeness, as this is what suppliers would recover (given the reconciliation mechanism that is part of the levelisation policy).
- 3.7 For the purpose of this analysis, we have made some key assumptions such as:
- All households currently on default tariffs stay on their current tariff. In most cases, we consider that the bill impacts are sufficiently small to be unlikely to materially affect customers' choices. We discuss exceptions to this below.
  - Household energy consumption is fixed at benchmark consumption. We note that customer impacts calculated in this IA would vary based on actual consumption values. We also recognise that there are likely to be small price elasticity impacts (ie changes in consumption in response to changes in prices), but these are likely to be negligible for most customers and we have not included these for simplicity.
  - All other allowances in the cap are held constant, except the allowances for: Earnings Before Interest and Tax (EBIT) and Headroom. We consider that these allowances scale with the overall cap level, and therefore with the changes to the operating costs allowance across our options.
  - Total bill figures/bill impacts include Value Added Tax (VAT)
- 3.8 Table 2 below sets out the pre-levelised customer bill impacts of our IA options for each payment method - we compare this to the "Do nothing" scenario.<sup>5</sup> We note that, in the presence of the levelisation phase 1 mechanism, this is not what customers are likely to pay – rather this is what suppliers would recover.

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<sup>5</sup> "Do nothing" refers to the status quo which we have defined as the cap period 13a operating costs allowance.

**Table 2: Provisional pre-levelised customer bill impact across payment methods, at benchmark consumption,<sup>6</sup> per dual fuel customer per year**

	<b>Direct Debit</b>	<b>Prepayment</b>	<b>Standard Credit</b>
Do nothing	£1,842	£1,834	£1,968
Option 1	£1,831 (-£11)	£1,825 (-£9)	£1,976 (+£8)
Option 2	£1,821 (-£21)	£1,815 (-£19)	£1,967 (-£1)
Option 3	£1,757 (-£85)	£1,822 (-£12)	£2,229 (+£261)
Option 4	£1,845 (+£3)	£1,878 (+£44)	£1,887 (-£81)

3.9 Given the objective of our analysis in this section is to understand the impact on bills for default tariff customers and therefore what customers are likely to pay, we present our assessment on the post-levelised bill impacts as illustrated in Table 3.

**Table 3: Provisional post-levelised customer bill impact across payment methods, at benchmark consumption, per dual fuel customer per year**

	<b>Direct Debit</b>	<b>Prepayment</b>	<b>Standard Credit</b>
Do nothing	£1,849	£1,796	£1,968
Option 1	£1,839 (-£10)	£1,783 (-£13)	£1,976 (+£8)
Option 2	£1,829 (-£20)	£1,773 (-£23)	£1,967 (-£1)
Option 3	£1,768 (-£81)	£1,762 (-£34)	£2,229 (+£261)
Option 4	£1,858 (+£9)	£1,808 (+£12)	£1,887 (-£81)

<sup>6</sup> Benchmark consumption values are 3,100 kWh for single-rate electricity, 12,000 kWh for gas and 4,200 kWh for multi-rate electricity.

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- 3.10 Option 1 (our minded-to position) shows that customers paying by Direct Debit or PPM would observe bill savings of approximately £10 and £13, respectively. Customers paying by Standard Credit would see an increase in their bills of £8.
- 3.11 In comparison, option 2 (which reflects a LQ benchmark for core operating costs) shows that customers across each payment method would observe bill savings, including Standard Credit customers. Customers paying by Direct Debit or PPM would observe a larger reduction in their bills under option 2 (relative to option 1).
- 3.12 While option 2 would pass on greater cost savings to customers, we consider that this option is likely unsustainable and not in customers' interests overall. We discuss our consideration of cap stringency below, and in the relevant appendices for individual elements.
- 3.13 Firstly, setting allowances below the level of average market costs, following a period of investment in efficiency gains, may lead suppliers to reduce costs by reducing the quality of their service to the minimum levels required. Another way of reducing costs would be for suppliers to reduce investment in innovative services. For example, these could support delivery of Net Zero by helping customers to shift demand to times when electricity is cheaper. A reduction in such investment could lead to higher bills for future customers (relative to option 1) and negatively affect customers' interests in Net Zero.
- 3.14 Secondly, a more stringent benchmark may lead to an under-recovery of costs for suppliers. As this is an enduring allowance, the impact would be cumulative over a number of years (until a supplier could reduce its costs to align with the allowance, if this were feasible). This could increase the risk of supplier failures or market exits, which could ultimately increase costs for current and future customers (where customers could be bearing costs through the Supplier of Last Resort process). While we have had regard for the financeability of all suppliers, we do not consider that suppliers who may be inefficient should impact our overarching rationale.
- 3.15 While it is clearly possible to conceive of a notionally efficient supplier that is able to meet a LQ benchmark, it is also possible to consider a notionally efficient supplier that might not be able to meet that benchmark – for example as a result of customer base, or lack of scale. We also need to consider this in the context of a cap that is no longer temporary.
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- 3.16 Repeatedly setting LQ benchmarks for all operating costs would send a signal to suppliers and investors that the majority of the market would not be able to recover costs (at least temporarily), even if the whole market continued to make efficiency gains. We do not consider that such a signal would be in the long-term interests of customers, nor would it reflect the right balance across the considerations we need to have regard to under the cap legislation.
- 3.17 Option 3 uses suppliers' reported cost allocation across payment methods for debt-related costs. We do not consider this to be cost-reflective in terms of the typical (ie median or mode) cost to serve a customer on that payment type. However, it does reflect the average debt cost incurred by suppliers across different payment types, and is a potential indicator for the costs incurred by suppliers in serving customers in each payment cohort. Whilst there is some correlation between average debt costs and payment type, we do not consider it to be sufficiently strong to justify the sort of differentials that would result from option 3. For example, Standard Credit customers have higher debt costs on average and therefore under option 3, customers paying by Standard Credit would be disproportionately impacted. While Direct Debit and PPM customers do observe significant savings (compared to option 1), Table 2 shows that Standard Credit customers would observe a significant bill increase of approximately £261.
- 3.18 As discussed in Appendix 2: Debt-related costs and Chapter 6 of this IA (which covers our assessment of the Public Sector Equality Duty), we do not consider it in customers' interests for the costs of non-paying customers to be spread across a few million paying Standard Credit customers. This consideration would hold across any sub-cohort of paying customers, however it is particularly so given the disproportionate levels of low-income customers who pay by Standard Credit.
- 3.19 We note that option 3 would create payment method differentials that may incentivise customers to switch away from Standard Credit. Customers who do switch to a cheaper payment method would see lower bills. However, there is a risk that this would not lead to a reduction in debt-related costs, especially given the association between low engagement and indebtedness. In Chapter 4, we consider the potential impacts of this on financeability. In theory, a diminishing number of Standard Credit customers in this scenario might then mean we would need to adjust allowances up further, which would increase bills for the remaining Standard Credit customers. It would not be realistic to recover debt-related costs from a decreasing group of Standard Credit customers.
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- 3.20 Option 4 adopts an equal allocation approach across payment methods, creating a zero payment method differential for debt-related costs. Under this option, Standard Credit customers would be largely protected from a high debt allowance. Table 2 shows that Standard Credit customers would observe a bill reduction of £81, while Direct Debit and PPM customers would see an increase in their bills of £9 and £12, respectively.
- 3.21 While option 4 reduces the financial burden for Standard Credit customers, we consider that the full socialisation of debt-related costs (across all payment methods) would undermine cost-reflectivity. Customers on Standard Credit, which is a more expensive payment method, would see a reduced incentive to switch to more efficient payment methods. Conversely, there is a risk that some customers on more efficient payment methods (ie Direct Debit and PPM) might switch to Standard Credit to benefit from deferred payments. This would distort market signals, leading to inefficiencies and ultimately higher costs for customers.
- 3.22 Even without incentive effects, Direct Debit and PPM customers would bear costs related to Standard Credit customers. This impact would be negative for PPM customers, who are generally not likely to incur debt. We note that while the impact on PPM customers is lessened due to the levelisation mechanism in place, any negative impact would be more significant (as a proportion of household incomes) for vulnerable customers paying by PPM.
- 3.23 Given option 4 would not be accompanied by a reconciliation mechanism, we would expect that suppliers with a higher-than-average proportion of Standard Credit customers would cumulatively under-recover costs, impacting supplier financeability and increasing the risk of supplier failures. We therefore consider that option 4 would not be in customers' interest.

## **Distributional impact on default tariff customers**

### **Distributional impact on all households**

- 3.24 We have used Ofgem's domestic energy consumer archetypes to understand the impacts of our IA options on different groups of customers.<sup>7</sup> The archetypes were designed to assist with the identification and understanding of different types of

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<sup>7</sup> Ofgem (2024), Energy consumer archetypes report update 2024.  
<https://www.ofgem.gov.uk/energy-policy-and-regulation/measuring-impact-our-policy-decisions>

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energy customers, including those in vulnerable situations, and to model the impacts of future policy changes.

- 3.25 The domestic consumer archetype framework uses ONS Living Cost and Food survey data to assign each archetype and income distribution. The archetypes vary significantly across a number of characteristics such as age, income, house type and energy consumption levels. From this, we have estimated how our IA options would affect customers at different income levels.
- 3.26 We presented the bill impact analysis in the previous section based on a single level of consumption (benchmark consumption). This resulted in a single direction of impact for a given payment method. As the consumer archetype framework includes different consumption levels for different archetypes, the analysis in this section can generate different directions of impact for customers on the same payment method. The impact of consumption depends on how a particular option affects the standing charge and unit rate.
- 3.27 Table 4 below sets out our analysis of the number of households we expect to lose/gain. We note that the distributional impacts presented here are post-levelisation, as this represents the bill impact that customers' face.

**Table 4: Number of households (HH) worse/ better across payment methods (post-levelised)**

Options	Payment method	No of HH worse off (in m)	Ave. bill increase per losing HH, £/year	No of HH better off (in m)	Ave. bill reduction per gaining HH, £/year
Option 1	Direct Debit	3.5m	+£10	18.3m	-£11
Option 1	Prepayment	-	-	3.3m	-£12
Option 1	Standard Credit	1.8m	+£14	0.0m <sup>8</sup>	-£6
Option 2	Direct Debit	3.4m	+£6	18.4m	-£21
Option 2	Prepayment	-	+£0	3.3m	-£21
Option 2	Standard Credit	0.6m	+£25	1.2m	-£4
Option 3	Direct Debit	-	-	21.8m	-£79
Option 3	Prepayment	-	-	3.3m	-£32
Option 3	Standard Credit	1.8m	+£252	-	-
Option 4	Direct Debit	21.8m	+£11	-	-
Option 4	Prepayment	3.3m	+£12	-	-
Option 4	Standard Credit	-	-	1.8m	-£71

Note: The values for number of households have been rounded to one decimal place - values shown as '0.0m' are non-zero and are less than five thousand.

3.28 Our modelling indicates that c.18.3m households paying by Direct Debit and c.3.3m households paying by PPM would be better off under our proposed policy changes (option 1). Moreover, a small number of households paying by Standard Credit would also benefit from option 1. This is in contrast with an estimated c.3.5m Direct Debit households and c.1.8m Standard Credit households potentially worse off. Of those households worse off, we note that most are

<sup>8</sup> This value has been rounded to one decimal place and is equal to 3,903 households.

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electricity-only customers (particularly for Direct Debit households). This is because of the impacts of our proposals on different fuels, which is primarily being driven by our allocation of debt-related costs across fuels (as detailed in Appendix 2: Debt-related costs). We note that under option 1, we expect zero PPM households to lose as a result.

- 3.29 The magnitude of bill changes varies depending on the payment method of a household. With the levelisation mechanism in operation, PPM households would benefit the most, with an average bill reduction of roughly £12 under option 1.
- 3.30 Option 1 and option 2 differ by the benchmarking approach adopted for core operating costs. Option 2 therefore draws a similar narrative to option 1, where the direction of the number of households worse/better off is the same for each payment method. However, the magnitude of the number of households worse/better off and average bill change, differs.
- 3.31 Option 3 creates high payment method differentials and leads to Standard Credit customers being disproportionately impacted, with c.1.8m Standard Credit households facing a premium of £252 on average. This is in contrast to option 1, which holds the current cap differentials for debt-related costs and leads to a more balanced impact across the payment methods. We note that while lower differentials (as in option 1) may lead to more proportional outcomes for customers relative to option 3, this might impact suppliers' ability to recover efficient costs (if costs are higher than recognised by the current differentials), potentially having an impact on supplier financeability.
- 3.32 Option 4 (which is fundamentally opposed to option 3), creates a zero payment method differential by allocating debt-related costs equally across payment methods. Under option 4, our modelling indicates that c.21.8m households paying by Direct Debit and c.3.3m households paying by PPM would be worse off, with average bill increases of £11 and £12, respectively. This impact is being driven by Direct Debit and PPM customers bearing the debt-related costs of Standard Credit customers. Given Direct Debit and PPM customers are not likely to incur debt, we consider that these customers' interests would not be appropriately protected under option 4.
- 3.33 Table 4 shows that under option 4, c.1.8m households paying by Standard Credit would be better off, with an annual bill reduction of £71. Given Standard Credit customers are on average, more expensive to serve, we consider that a bill reduction for Standard Credit customers would undermine cost reflectivity and impact suppliers' ability to recover efficient costs.

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### **Distributional impact on vulnerable customers**

- 3.34 We have also utilised the Ofgem domestic consumer archetypes to understand the impact on households with certain vulnerable and protected characteristics. In this section, we have assessed the impact on low-income households and households that are in receipt of disability benefits. We consider that these customer groups are often more susceptible to cost-impacts and policy changes due to financial constraints and additional challenges they may face. Our assessment aims to ensure that our proposed changes do not exacerbate any existing inequalities.

#### *Low-income households*

- 3.35 The table below focuses on the number of lower income households we expect to lose/gain. For the purpose of our analysis here, we have defined low-income as £19,500.<sup>9</sup>

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<sup>9</sup> We have calculated this based on median household disposable income (£32,300) in the UK for Financial Year Ending (FYE) 2022 as published by the Office for National Statistics. We have taken 60% of median income as our definition of low-income, in line with the ONS definition of the poverty line.

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**Table 5: Number of low-income households worse/ better off across payment methods (post-levelised)**

Options	Payment method	No of low-income HH worse off (in m)	Ave. bill increase per losing HH, £/year	No of low-income HH better off (in m)	Ave. bill reduction per gaining HH, £/year
Option 1	Direct Debit	0.9m	+\$10	3.4m	-\$12
Option 1	Prepayment	-	-	1.2m	-\$13
Option 1	Standard Credit	0.5m	+\$13	0.0m <sup>10</sup>	-\$7
Option 2	Direct Debit	0.9m	+\$6	3.5m	-\$21
Option 2	Prepayment	-	-	1.2m	-\$22
Option 2	Standard Credit	0.2m	+\$24	0.4m	-\$4
Option 3	Direct Debit	-	-	4.4m	-\$71
Option 3	Prepayment	-	-	1.2m	-\$32
Option 3	Standard Credit	0.6m	+\$232	-	-
Option 4	Direct Debit	4.4m	+\$10	-	-
Option 4	Prepayment	1.2m	+\$10	-	-
Option 4	Standard Credit	-	-	0.6m	-\$65

Note: The values for number of households have been rounded to one decimal place - values shown as '0.0m' are non-zero but are less than fifty thousand.

3.36 As set out in Table 5 above, we estimate that option 1 would result in a slightly lower number of low-income households benefitting from our proposed options (compared to options 2 and 3). Further, option 1 leads to smaller total bill reductions across payment methods (relative to option 2). However, as discussed in Appendix 1: Core operating costs, we consider that option 1 should provide greater room for suppliers to undertake a range of activities beyond their

<sup>10</sup> This value has been rounded to one decimal place and is equal to 1,193 households.

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minimum obligation. This is particularly important for vulnerable customers (ie low-income households) who require a more sensitive and personal service.

- 3.37 We estimate that option 1 would increase bills for c.0.9m low-income households paying by Direct Debit and c.0.5m low-income Standard Credit households, by approximately £10 and £13 respectively. While we recognise that any bill increases would be concerning for customers in these situations, the cap is inherently not a targeted measure and it is not possible to avoid bill increases for all low-income customers, especially where the overall direction of cap changes is an increase (as is the case for core operating costs for Standard Credit).

*Households in receipt of disability benefits*

- 3.38 Moreover, we have assessed the impact on households that are in receipt of disability benefits using Ofgem's consumer archetypes (A3, B5, D10 and E13). While we have not presented the detailed analysis here, we discuss the impacts qualitatively, providing an overview of the key findings and their implications.
- 3.39 Overall, we find a higher number of 'losers' and a smaller number of 'winners' for option 1 compared to option 2, particularly for Standard Credit customers.
- 3.40 We note that zero PPM customers are left worse off across any the options.
- 3.41 Our analysis suggests that bill increases for households in receipt of disability benefits are more significant under option 1, with bill increases ranging between £6 - £18 for those paying by Direct Debit and £3 - £54 for Standard Credit. We note that consumer archetype B5<sup>11</sup> is impacted the most and is driving the maximum bill impact within these ranges.
- 3.42 However, we consider that while generally option 1 shows a more negative impact on vulnerable consumer archetypes than option 2, we consider that option 1 maximises long-term customer protection by supporting better service which may be of particular value to customers with more complex needs (eg issues relating to debt and challenges with online self-service), as well as implementation of innovative technologies to improve customer experience and outcomes (eg in relation to net zero).
- 3.43 Our analysis estimates that under option 3, no Direct Debit/PPM households would be left worse off, and no Standard Credit households would be better off.

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<sup>11</sup> The key attributes of consumer archetype B5 are: Low income; electric/solid fuel/LPG heating; 45+ years old; retired/unoccupied; disability benefits; high electricity consumption.

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Further, we see that the negative impact on Standard Credit households who are in receipt of disability benefits is disproportionately more, with a maximum bill impact of £577, compared to the maximum bill impact for all households at £349.

- 3.44 This is in contrast to option 4 which sees no Standard Credit households lose, but c.2.2m Direct Debit and c.0.8m PPM households in receipt of disability benefits worse off. We note that under option 4, it is Direct Debit and PPM households which are disproportionately impacted (to similar extents), with maximum bill impacts of £39 and £43, respectively. We note that this is more than double the maximum bill impacts for all Direct Debit and PPM households.

### **Impact on customers on uncapped contracts**

- 3.45 In general, we consider that there would continue to be room for Fixed Tariff Contract (FTC) pricing below the cap, and therefore we expect the impact on FTC customers would be limited.
- 3.46 Customers would be unlikely to select a FTC priced above the cap. We therefore recognise that allocation decisions might affect the attractiveness of FTC pricing for certain customer types – especially Standard Credit customers. We do not consider that this is an important implication of our proposal, given that the number of FTC Standard Credit customers is limited.
- 3.47 Any non-price benefits of our proposed approach (in terms of service, innovation, or resilience) could also result in benefits for FTC customers.

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## 4. Impacts on suppliers

In this chapter, we have assessed the impact of our IA options on a range of notional suppliers and have also considered the impact on actual suppliers.

- 4.1 We have assessed the impact of our IA options on a range of notional suppliers, to determine the impact of various proposals on revenue as a proportion of notional EBIT allowance. We have also considered the impact on actual suppliers, primarily because some of our IA options could affect the risks of supplier failure, and therefore the amount that customers could have to pay as a consequence.
- 4.2 As we are required by legislation to set a single energy price cap<sup>12</sup>, we consider that it is inevitable that suppliers would be exposed to risks differently due to differences in their business models and customer mixes. We therefore note that the impacts on suppliers would vary.

### Our approach to defining notional suppliers

- 4.3 For the purposes of this IA, we have presented three notional suppliers, each with a different ratio of Direct Debit, PPM and Standard Credit customers.
- 4.4 We consider that our range of notional suppliers enable us to assess the impacts of our allocation approach for payment methods, which would not have been possible with a single hypothetical supplier.
- 4.5 Payment method is the main driver of difference between suppliers under our IA options. We consider that suppliers' costs could be affected by: (a) the extent to which certain payment methods inherently have higher costs, and (b) any impacts resulting from the relationship between certain payment methods and other customer characteristics (eg vulnerability).
- 4.6 We have made the following assumptions which are relevant to our notional suppliers:
- Energy consumption is fixed using benchmark consumption. Financial impacts on notional suppliers could differ if payment methods have different consumption levels on average.
  - Each notional supplier's customer base is informed by data on payment methods across default and fixed tariff customers, rather than just the

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<sup>12</sup> Domestic Gas and Electricity (Tariff Cap) Act 2018.  
<https://www.legislation.gov.uk/ukpga/2018/21/introduction/enacted>

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default tariff customers to whom the cap applies. We consider that the impact of this should be low given default tariff customers currently make up most of the market.

4.7 Table 6 below illustrates the profiles of our notional suppliers.

**Table 6: Assumed customer base payment method splits of our notional suppliers**

	<b>Notional Supplier A</b>	<b>Notional supplier B</b>	<b>Notional supplier C</b>
Direct debit	64%	85%	5%
Prepayment	14%	5%	90%
Standard credit	22%	10%	5%

- 4.8 Supplier A represents a typical legacy supplier. This type of supplier has a higher-than-average proportion of Standard Credit customers – we use an average across the legacy suppliers in the market (22%). While individual suppliers would have different proportions of Standard Credit customers, we consider that Supplier A would sufficiently show the impacts of allocation decisions regarding Standard Credit. We also use the average proportions of PPM customers among legacy suppliers, and have treated Direct Debit customers as the residual.
- 4.9 Supplier B represents a challenger supplier – ie a supplier who acquired their customer base more recently. This supplier has a customer base with a higher-than-average proportion of Direct Debit customers (85%), and a lower proportion of Standard Credit customers (relative to Supplier A).
- 4.10 Supplier C has a customer base which is mostly made up of PPM customers (90%) and is intended to reflect the profile of a PPM specialist supplier.
- 4.11 We note that we have developed Notional Suppliers B and C as illustrations, rather than calculating these as averages, given there are fewer suppliers to draw on.
- 4.12 We are not suggesting that each notional supplier archetype corresponds to an equal portion of the market, however we consider that it is important to understand the impact on various notional suppliers given the payment method allocation decisions we are making.
- 4.13 Our notional suppliers have been designed to reflect specialisation for a particular payment method, in a way that it is broadly reflective of actual suppliers’

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customer bases. Actual suppliers would have different individual customer base payment method splits.

## **EBIT assessment**

- 4.14 Using our notional suppliers, we have carried out an EBIT assessment to understand the impacts of our IA options on suppliers' revenues.
- 4.15 For the purposes of this analysis, we have made the following assumptions:
- Notional suppliers' costs are held constant – our analysis focuses on the change in suppliers' revenues, rather than the changes in costs.
  - All other allowances in the cap are held constant (except the allowances for EBIT and Headroom). We consider that these allowances scale with the overall cap level, and therefore with the changes to the operating costs allowance across our options.
  - Total bill figures/bill impacts include Value Added Tax (VAT)
  - We have not considered the interaction post-levelisation - we consider that the levelisation reconciliation mechanism means that levelisation has a neutral impact on suppliers
- 4.16 In our EBIT assessment, we have presented two baselines which differ by the allowances they include/don't include. Table 7 shows how we have defined these.

**Table 7: Baseline definitions**

<b>Baselines</b>	<b>Definition</b>
Do nothing	Reflects the EBIT allowance in the current cap period 13a, but with the temporary debt allowances removed. <sup>13</sup>
Baseline	Reflects the EBIT allowance in the current cap period 13a, which includes the temporary debt allowances.

- 4.17 Both baselines ("Do nothing" and 'Baseline') reflect a scenario where there is no operating costs review, but differ by the temporary debt allowances which they include/exclude. In this section, we have defined the baseline "Do nothing" as a scenario where there are no temporary debt allowances, given that these would no longer exist at the time our proposed changes would likely be implemented. As a direct comparison against cap period 13a allowances, the baseline 'Baseline' can

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<sup>13</sup> In this section, "Do nothing" does not include (a) the existing additional allowance in the cap for bad debt costs association with ASC given to PPM customers and (b) the 12-month float allowance for additional debt-related costs incurred from April 2022 to March 2024.

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be interpreted as assuming that the temporary debt allowances would be extended into the future.

- 4.18 Table 8 below shows our estimates of what the change in a notional supplier's EBIT (expressed as a percentage of revenue) would be. We note that our estimates are presented as a change relative to Baseline.

**Table 8: Change in EBIT as a proportion of revenue at benchmark consumption (percentage points)**

	<b>Notional supplier A</b>	<b>Notional supplier B</b>	<b>Notional supplier C</b>
Do nothing	-1.6pp	-1.7pp	-0.6pp
Baseline	0.0pp	0.0pp	0.0pp
Option 1	-0.4pp	-0.5pp	-0.5pp
Option 2	-0.9pp	-1.1pp	-1.0pp
Option 3	+0.1pp	-2.8pp	-0.1pp
Option 4	-0.6pp	-0.2pp	+2.0pp

- 4.19 Option 1 (our minded-to position) sees EBIT as a proportion of total revenue fall by 0.4pp for Supplier A, and 0.5pp for Suppliers B and C, relative to the current allowances (Baseline). However, this is a smaller reduction than would occur if we allowed the temporary allowances to fall away ("Do nothing").
- 4.20 Our proposed allowances are based on our analysis showing that average costs are lower than the sum of current allowances (when including the temporary adjustment allowances for debt and ASC). A reduction in revenue therefore does not mean that notionally efficient suppliers would see smaller EBIT margins than the 2.47% cap allowance or vice versa.
- 4.21 In comparison, option 2 (which reflects a LQ benchmark for core operating costs) shows a further drop in EBIT of 0.5pp/0.6pp (relative to option 1) across all notional suppliers. For example, Supplier A sees its overall EBIT proportion decrease by 0.9pp, relative to Baseline.
- 4.22 Option 2 would be coherent with a view that a LQ represented notional efficiency. To that extent, option 2 would also not mean that notionally efficient suppliers would see smaller EBIT margins than the cap allowance. However, a LQ benchmark would require most actual suppliers to make efficiency improvements to earn the cap EBIT allowance. Even if feasible, this could take time. Suppliers could therefore make less than the cap EBIT allowance for a period – ie making

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less than a normal rate of return on their capital employed. Suppliers in this situation (and their investors) would need to take a judgement on whether this would likely be offset by higher EBIT margins in later years, such that it was attractive to continue participating in the market. They would also have to consider the possibility that over time, Ofgem may set another LQ benchmark which would again mean that most suppliers were unable to recover costs (unless and until they could make further efficiency improvements).

- 4.23 Exit is a normal part of a well-functioning market. However, unplanned exit can lead to customers bearing costs through the Supplier of Last Resort process.
- 4.24 The text above assumes that the LQ correctly reflected notionally efficient costs. However, option 2 creates a potential risk for costs to be understated, given that it would be more heavily influenced by a smaller number of suppliers' data than option 1. This could impact suppliers' ability to recover efficient costs. Any negative impacts on suppliers' EBIT would be cumulative and therefore increase the risk of supplier failures. Exit is a normal part of a well-functioning market. However, unplanned exit can lead to customers bearing costs, eg through the Supplier of Last Resort process.
- 4.25 It is important to note that, under option 1, compared to option 2, some suppliers who are operating at above-average efficiency would already be able to achieve a higher EBIT margin than our EBIT allowance. The same would apply to any suppliers who are able to improve their efficiency. We therefore consider that option 1 would be less susceptible to future market changes and more resilient to future cost shocks. We consider that this would enable suppliers to improve their services and invest in innovation while having improved regulatory stability.
- 4.26 EBIT is also influenced by our allocation of debt-related costs between payment methods. Given our notional suppliers differ by the assumed customer base payment method splits, EBIT is disproportionately impacted under option 3 (which uses suppliers' reported allocation for debt-related costs). We note that Supplier A, which has a higher-than-average proportion of Standard Credit customers, sees a rise of 0.1pp compared to Baseline.
- 4.27 However, this option would rely on setting a high differential for Standard Credit customers. It might therefore incentivise some paying Standard Credit customers to switch to Direct Debit. While this aligns with broader goals to move customers to efficient payment methods, this could lead to a smaller number of Standard Credit customers covering the costs of non-paying customers. We discussed in Chapter 3 that this ultimately would have a negative impact on customers, but

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we also recognise that this would also make it more difficult for suppliers to recover efficient costs overall and therefore have a negative impact on supplier financeability. Some of the implied gain in EBIT for Supplier A would therefore be unlikely to be realised in practice.

- 4.28 In contrast, Suppliers B and C observe decreases in their respective EBIT under option 3. Supplier B, which has a higher-than-average proportion of Direct Debit customers, is impacted the most, with a drop in its EBIT of 2.8pp. We do not consider that this indicates that suppliers with a high proportion of Direct Debit customers are currently achieving an EBIT margin significantly above our EBIT allowance.
- 4.29 First, as discussed in Chapter 5 of Appendix 2: Debt-related costs, we consider that the extent to which supplier-reported costs are 'cost-reflective' is unclear due to factors such as customer movement and supplier provisioning methodologies. Second, our data on actual suppliers shows that suppliers with widely different customer bases by payment types can have quite similar debt costs per customer – suggesting that the number of Standard Credit customers and the total level of debt carried by suppliers is only weakly correlated across the market. Thirdly, suppliers remain able to price below the cap, especially where they have a lower cost customer base.
- 4.30 Further, we recognise that the characteristics of a Standard Credit customer would differ across suppliers. For example, Standard Credit customers of Supplier A may have remained on Standard Credit due to inertia, or may have chosen Standard Credit as their preferred payment method for reasons not relating to debt (ie a general preference to pay on receipt of bill). In contrast, for suppliers with a smaller proportion of Standard Credit customers (like Supplier B), a greater fraction of these Standard Credit customers may have moved to Standard Credit for debt reasons. As a result, the cost per Standard Credit customer for Supplier A may therefore be below the market average and the cost per Standard Credit customer for Supplier B may be above the market average. We therefore consider that using a reported cost allocation approach as in option 3 would not be an accurate representation of a payment method's cost-to-serve.
- 4.31 Comparing actual data on how debt-related costs increase with the proportion of Standard Credit customers, with how debt-related revenues change under our options, we see that option 1 (our minded-to position) results in a much closer relationship between cost and revenue compared to either option 3 or option 4.

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- 4.32 It is worth noting that this different periods of debt RFI result in different relationships between debt-related costs and proportion of Standard Credit customers. Some periods show debt related costs being more sensitive than debt-related revenues under option 1. Other periods of data show the reverse. This suggests that option 1 strikes a reasonable balance across suppliers in terms of cost recovery and a considerably better balance than either option 3 or 4.
- 4.33 Option 4 allocates debt-related costs equally across payment methods to create a zero payment method differential for debt-related costs. This is in contrast to option 1 (which uses current cap differentials), and even more so to option 3 (which assumes a 'cost-reflective' approach).
- 4.34 A zero payment method differential would impact the recovery of efficient costs, particularly for suppliers with a more expensive cost-to-serve customer base.<sup>14</sup> Suppliers with a higher-than-average proportion of Standard Credit and Direct Debit customers (Supplier A and Supplier B), would observe decreases in their respective EBIT of 0.6pp and 0.2pp. While we would in principle expect Supplier B to see an increase in its EBIT (given Direct Debit customers would be paying more under option 4), the revenue decrease per Standard Credit customer is much larger than the revenue increase for Direct Debit customers. Therefore, even the impact on Supplier B's smaller percentage of Standard Credit customers, leads to an overall decrease in its EBIT.
- 4.35 PPM specialist suppliers (ie Supplier C) would significantly benefit from the socialisation of debt-related costs given PPM customers would be paying more (outweighing the impact of Supplier C's Standard Credit customers). This could have a negative impact on competition as suppliers with a higher-than-average proportion of PPM customers would over-recover costs, which could provide them with a competitive advantage.
- 4.36 Moreover, Standard Credit customers would not be paying a cost-reflective amount (on the basis that typical Standard Credit customers do carry some additional capital requirements and debt risk) and debt costs would still be incurred. Supplier A would be disproportionately impacted as they would not be able to cumulatively recover their efficient costs. This risk is exacerbated due to the lack of incentives to choose more efficient payment methods under option 4,

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<sup>14</sup> Standard Credit customers generally have higher debt costs on average. Suppliers with a higher-than-average proportion of Standard Credit customers are therefore considered to have a more expensive cost-to serve customer base.

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where in the long run, more customers might choose to pay by Standard Credit to benefit from making late payments (which would later be socialised).

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## 5. Impact on competition and innovation

This chapter sets out an initial assessment on the impact on competition. We have assessed how our proposed changes may affect the underlying features of the market.

5.1 Using Ofgem’s Competition Framework,<sup>15</sup> we have conducted an initial assessment on the impact on competition. We have looked at whether and how our proposed changes may affect the underlying features of the market; namely, (i) customer engagement and empowerment, (ii) market rivalry, and (iii) market entry/exit. In this section, we discuss the options most relevant to these themes.

### Customer engagement and empowerment

- 5.2 Our proposed changes are intended to deliver an operating cost allowance that would continue to enable investment and innovation. Option 1 supports the possibility for suppliers to attract investment (relative to a more stringent benchmark for core operating costs under option 2) which can facilitate enhanced customer service, innovative products/services and sustainability initiatives. We consider that such investments by suppliers could strengthen customer engagement linked to net zero.
- 5.3 We recognise that option 1 could also lead to a potential reduction in the price differential between default tariffs and fixed tariffs. This may dampen customer incentives to switch to potentially lower priced fixed tariffs. However, any reductions in the tariff price differential would be small, so we consider these would have a low impact on incentives to engage. Further, we note that any such impacts would be more significant under option 2.
- 5.4 Significant savings (at least in the short-term) from moving to fixed tariffs have started to emerge, and switching between suppliers has increased significantly from the low point.<sup>16</sup> Under our proposed changes, we consider that there would continue to be room for suppliers to price fixed tariffs below the cap, and therefore we still expect gains from switching and incentives to switch to remain.

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<sup>15</sup> Ofgem (2024), A competition framework for the household retail market.  
<https://www.ofgem.gov.uk/decision/competition-framework-household-retail-market>

<sup>16</sup> Ofgem (2024), Number of domestic customers switching supplier by fuel type (GB).  
<https://www.ofgem.gov.uk/retail-market-indicators>

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## **Market rivalry**

### **Supplier profitability**

- 5.5 The impact on suppliers' profitability depends on the variation in operating costs, where the benchmarking decisions we make (ie on core operating costs) would be more sensitive for some suppliers than others.
- 5.6 We consider that notionally efficient suppliers would still be able to serve all customers profitably under our proposed changes (option 1). Suppliers who start with (or move to) above average efficiency may achieve profits above the EBIT allowance in the cap. Suppliers with below average efficiency may make profits below the EBIT allowance in the cap – we discuss this further in Chapter 4.
- 5.7 Option 2 would have a larger impact on suppliers operating at below-average efficiency (compared to option 1). While suppliers can take actions to maximise their efficiency, there may be some factors that are outside the control of suppliers (non-efficiency factors), potentially increasing the risk of failure for some suppliers.
- 5.8 As set out in Chapter 4, the impact on suppliers' profitability varies across suppliers with different customer base payment method splits. The allocation decisions we make (ie on debt-related costs) could therefore improve the competitive position of some suppliers while weakening others. We note that the competition impact may depend on whether suppliers with additional revenues choose to keep these as profits or reinvest them in the business.
- 5.9 Crucially though, as set out in the previous section of this IA, we consider that our minded-to approach achieves a reasonable balance of cost recovery across a range of real and notionally efficient suppliers, and it is not clear that a different allocation would achieve a more balanced outcome.

### **Product offerings**

- 5.10 As noted in chapter 2, we expect our proposed changes to have a limited impact on other tariffs offered by suppliers (ie FTC). This is because we expect suppliers would continue to be able to price FTC tariffs below the cap. We also recognise that under option 1, suppliers would have the ability to invest in new innovative products/services. This could lead to cost reductions through improved technologies and efficiencies, passing on cost savings to customers in the long run.

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5.11 In contrast, we consider that under option 2, suppliers' would have less flexibility in their pricing of other tariffs. We note that this could weaken suppliers' ability to offer competitive products and attract new customers. However, FTC pricing would remain constrained by suppliers with low operating costs, therefore we would expect any impacts on FTCs to be limited.

### **Service levels**

5.12 Suppliers whose ability to recover costs reduces because of the proposed changes may look to reduce their operating costs. For these suppliers, a reduction in the operating costs allowance could negatively affect the service levels offered to their customers. However, the negative effect on suppliers' incentives would be mitigated by:

- (i) the risk of losing customers to suppliers offering better service, and;
- (ii) our Consumer Standards backed by licence conditions.

5.13 On (i), we consider this point to be more relevant to engaged customers, who are generally more likely to seek better service than disengaged customers. We note that the primary risk for suppliers would therefore be losing engaged customers and therefore those on fixed tariffs.

5.14 We would expect that any impact on service standards would generally affect all of a supplier's customers. For example, some processes should be uniform across a supplier's customer base (eg billing). This could mean that pressure from engaged customers could help to constrain some reductions in service for default tariff customers. However, we consider that a reduction in some costs could affect some customers more than others. For example, a reduction in call centre costs leading to a reduction in service might have a greater impact on default tariff customers than fixed tariff customers, if default tariff customers have a higher propensity to call their supplier.

5.15 Our licence requirements (point ii) would prevent reductions in service below a certain level. However, to the extent that some suppliers provide service levels above the minimum at present, they would have room to reduce service as a way of reducing costs. Licence requirements therefore do not eliminate the risk of a reduction in service.

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## Market entry/ exit

- 5.16 We do not consider that our proposed option 1 would constrain entry to any meaningful extent. A new entrant should be able to use the latest processes and technology, reducing the risk that it would have above average costs in the medium-term.<sup>17</sup> We would also expect that new entrants would have fewer default tariff customers than existing suppliers, as they would need to acquire engaged customers. This would reduce the direct impact of the cap on their pricing. Furthermore, to the extent that option 1 provides regulatory stability, this may help entrants obtain finance.
- 5.17 We noted in Chapter 4 that exit is a normal part of a well-functioning market. However, unplanned exits or supplier failure can lead to customers bearing costs through the Supplier of Last Resort process. We consider that our proposed changes reduce the risks of supplier failures relative to other options (eg option 2), while not eliminating the potential that less efficient suppliers exit over time (as part of normal market functioning).

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<sup>17</sup> Entrants may have higher costs on a temporary basis when they first enter, if there are economies of scale that they are unable to realise when building their customer bases.

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## 6. Public spend and Public Sector Equality Duty

This chapter sets out the impacts of our proposed changes on public spending. We have also summarised our assessment on customers with protected characteristics as part of the Public Sector Equality Duty.

### Public spending

- 6.1 We are required to exercise our functions under the Domestic Gas and Electricity (Tariff Cap) Act 2018 with a primary focus on protecting customers on default tariffs, while having regard to specified considerations (see s. 1(6) of that Act). Following the introduction of the Energy Prices Act 2022, those specified considerations include “the need to set the cap at a level that takes account of the impact of the cap on public spending”. We note that this consideration was introduced in a context where the cap was being used as a reference price for determining the support provided under the Energy Price Guarantee and, especially given the small size of overall bill impacts, are not aware of any impact likely to result from our minded-to position.

### Public Sector Equality Duty (Equality Act 2010)

- 6.2 Ofgem is subject to the Public Sector Equality Duty (PSED) so in exercising our functions we must have regard to the need to:
- i) Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under the Equalities Act 2010;
  - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
  - iii) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it
- 6.3 In this section, we have summarised our assessment on customers with protected characteristics. Our assessment overlaps with the PSED for the following protected characteristics: disability, age and pregnancy.
- 6.4 The impact of the operating costs review would be felt through changes in prices paid for energy. In principle, increases in customers’ energy bills can impact them through:
- a) Direct financial impacts and,

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- b) Indirect impacts, such as reducing consumption leading to social, physical and/or mental detriment, and at worst serious health impacts

- 6.5 The approach we take to benchmark core operating costs would impact the total amount customers would have to pay. Moreover, the approach we take to allocate debt-related costs would have different cost impacts on customers depending on the payment method they use. We consider that our proposed changes would reduce energy bills for most customers, and at worst lead to a small increase (less than 1%) for Standard Credit customers. We therefore do not consider that the proposals lead to large absolute negative financial impacts for any group of customers.
- 6.6 We recognise that the significance of an absolute financial impact for a particular customer would depend on their financial situation. While low-income customers would have a range of circumstances, we recognise that customers with certain protected characteristics can be more likely to have low incomes. However, this does not change our assessment that the proposals would not lead to large absolute negative financial impacts for any group.
- 6.7 Further, we have considered whether any of our options under consideration would have significantly different impacts on different customers, and in particular whether any would have a disproportionate impact on any customers with protected characteristics relative to the wider population. We consider that these impacts (if any) would be driven by the allocation decision we make on debt-related costs. As explained in Chapter 3, we consider that our minded-to position (using current cap differentials to allocate debt-related costs), strikes the right balance (relative to the alternative options we have considered) between setting an allowance that reflects the relative risk associated with a payment method, and ensuring the no particular group of customers is disproportionately impacted by socialised costs.
- 6.8 The key parameter we consider differing across customers is payment method, and so we have sought to understand the prevalence of protected characteristics in each payment type. We have used the latest wave of the Consumer Impacts of Market conditions survey (CIM) to explore this further.<sup>18</sup>

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<sup>18</sup> Ofgem (2024), Consumer impacts of market conditions survey: wave 5 (January to February 2024).  
<https://www.ofgem.gov.uk/publications/consumer-impacts-market-conditions-survey-wave-5-january-february-2024>

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### *Disability or illness*

- 6.9 Ofgem's latest consumer research shows that, 42% of PPM customers, 28% of Standard Credit customers, and 29% of Direct Debit customers self-reported that someone in their household has a long-term disability or illness in their household.

### *Low-income*

- 6.10 Additionally, based on participant responses, the proportion of PPM customers (44%) who reported having an income of less than £20,000<sup>19</sup> is higher than that of Standard Credit customers (24%) and Direct Debit customers (21%).

### *Pensionable age*

- 6.11 However, compared to Direct Debit and Standard Credit customers, a lower proportion of PPM customers reported having individuals aged 65 or older in their household. Specifically, 31% of Direct Debit households and 20% of Standard Credit households reported this, compared to only 13% of PPM households.

### *Other vulnerable and protected characteristics*

- 6.12 We also assessed households with someone requiring medical equipment support, those expecting or having children under 5, and households on the Priority Services Register (PSR) and those receiving any benefits, but found no significant differences across payment methods.

### *Our assessment (continued)*

- 6.13 Our proposals have generally sought to ensure that we limit any increases to the premiums these customers pay, and that we socialise the majority of debt costs in particular, across all customers rather than disproportionately across a subset with higher prevalence of protected characteristics.
- 6.14 We do recognise that our proposed changes would lead to a small increase in Standard Credit costs, whereas Direct Debit and PPM would show a small decrease. However, we consider this small difference appropriate given the higher cost-to-serve reflected in the evidence. We are also mindful that customers

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<sup>19</sup> For the purpose of this analysis, we have defined low-income as £20,000. We note that the CIM survey uses salary increments of £5,000 (up until £35,000) and £10,000.

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paying by Standard Credit can generally (although not in all cases) opt to switch to a cheaper payment method.

- 6.15 As we do not expect large negative financial impacts on any customer group, we also do not expect that there would be significant indirect consequences for any group. We recognise that there would be some individual customers whose financial situations mean that even a small increase in their energy bill would require them to make difficult choices, potentially including reducing the amount of energy they consume. We also recognise that the consequences of reducing energy consumption may be particularly significant for customers with certain protected characteristics (eg older customers). We note that suppliers remain subject to licence requirements to support vulnerable customers, including those at risk of self-disconnection.
- 6.16 The assessment in this section therefore recognises that any negative impacts may be greater for customers with protected characteristics which are associated with having lower incomes, as well as customers with protected characteristics for whom the consequences of reducing energy consumption may be greater. We consider that there may be other protected characteristics, such as religion or sexual orientation, where we have not identified any potential for adverse impacts.