

Dan Norton
Ofgem Retail Pricing Strategy

By email to:
StandingCharges@ofgem.gov.uk

Date: 20 September 2024

Dear Dan,

Standing charges: domestic retail options

This response is submitted on behalf of ENA's electricity distribution network operator (DNO) members, as listed at the end of this letter. This response is focused on Chapter 5 of the consultation, "Network and policy cost allocation".

ENA welcomes Ofgem's review of how network charges are allocated, with the objective of better understanding the changes that can be made for the benefit of customers as a whole. Whilst such changes should have a focus on affordability, it is important that they deliver cost reflective price signals for use of the electricity network, whilst retaining an appropriate level of standing charges. In principle, the starting point for targeted support for those that most need it should continue to be delivered through government policy, including via energy retail charges.

Network charges are primarily focused on cost recovery of investments in the electricity distribution network. Network tariff structures are set in accordance with charging methodologies approved by Ofgem. As network costs are not generally sensitive to volumetric consumption, charging methodologies should ensure that network standing charges¹ reflect the non-variable costs of running the network. The level of these standing charges should not be influenced by customer behaviour and should be fixed. The current charging methodology does not achieve this and this needs to be addressed as a priority.

ENA remains supportive of the founding principles of the Targeted Charging Review (TCR):

- **Reducing harmful distortions**; such as inefficient investment in generation for the purposes of reducing residual charges;
- **Fairness**; particularly with respect to improving the fairness of residual charges, and primarily for domestic users; and

¹ See Appendix 1

- **Proportionality and practical considerations;** achieving changes in a proportionate and practical manner.

However, whilst the TCR reformed residual network charges insofar as determining how they should be recovered, it did not address the quantum of the residual, resulting in many circumstances where customers are facing higher standing charges. The descope of the Access Significant Code Review (SCR) and subsequent delays to the Distribution Use of System (DUoS) SCR have resulted in this issue not being addressed.

The DNOs, through ENA, have presented Ofgem with options to address these issues and stand ready to support Ofgem and wider stakeholders to develop a way to implement the outcomes of this review, to achieve improved allocation of network costs. Any such review needs to be aligned with the Distribution Use of System (DUoS) Significant Code Review (SCR).

This response sets out the collective views of our members, each of whom may be providing their own company specific responses to the consultation.

Please do not hesitate to contact me should you have any questions regarding this response.

Your sincerely,

A handwritten signature in black ink, appearing to read 'Paul McGimpsey', is written over a light blue horizontal line.

Paul McGimpsey
Director Markets & Regulation
Energy Networks Association

On behalf of:

- Electricity North West Limited
- Northern Powergrid (Northeast) plc
- Northern Powergrid (Yorkshire) plc
- SP Distribution plc
- SP Manweb plc
- Scottish Hydro Electric Power Distribution plc
- Southern Electric Power Distribution plc
- Eastern Power Networks plc
- London Power Networks plc
- South Eastern Power Networks plc
- National Grid Electricity Distribution (East Midlands) plc
- National Grid Electricity Distribution (West Midlands) plc
- National Grid Electricity Distribution (South West) plc
- National Grid Electricity Distribution (South Wales) plc

Appendix 1

Network standing charges are typically made up of three elements:

1. Cost reflective (around £0.7bn (25%) on average p.a.) based mainly on the operating costs for sole use or service model assets (e.g. the low voltage service cable to an individual property), and an annuitized cost of local level assets such as the low voltage network circuits relating to a domestic property.
2. Residual (around £2.0bn (65%) on average p.a.) based on assignment to a charging band (single band for domestic) being the “top -up” difference between allowed revenue and the amount expected to be recovered via “forward -looking” charges.
3. SoLR (around £0.3bn (ca.10%) on average p.a.) primarily representing SoLR cost-recovery for suppliers i.e. these are not network costs. SoLR cost-recovery impacts domestic customers only given that it is those customers that benefit from the SoLR protection and the costs are allocated to the standing charge given they do not vary by usage and should be paid for by all.

Supplier of Last Resort (SoLR) costs

Ofgem’s consultation refers to SoLR costs as a network cost component of standing charges. SoLR costs are not network costs. They are retail costs for which a policy decision was made that they should be recovered via network charges. These costs have driven a significant increase in network standing charges in recent years. Going forward, these costs should be viewed, and presented, separately to the costs of recovery of the investments in the GB electricity distribution networks.