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**By email:** [RetailPriceRegulation@ofgem.gov.uk](mailto:RetailPriceRegulation@ofgem.gov.uk)

FAO: Christopher McDermott

**RE: Response to Ofgem's consultation on Introducing a Network Charge Compensation allowance in the energy price cap**

Chris,

To ensure my meaning is not misunderstood, I do not support the idea of moving the energy costs of private organisations onto consumers.

I understand that the previous UK Government has put you in a difficult position. Throughout their British Industry Supercharger: Network Charge Compensation Scheme consultation they considered various techniques for funding this compensation scheme, most of which would have not resulted in Ofgem being forced to consult on increasing our energy bills further. The proverbial buck being passed by the Conservatives cannot have been well received by you, so you have my sympathies.

With that being said, the previous Government set out expectations, but no explicit instructions on Ofgem, in-fact the only explicit instruction is that this charge is an obligation on suppliers. Therefore, the power on how this compensation charge is distributed between non-Ells, domestic consumers and suppliers rests with Ofgem.

As your consultation document states "The energy price cap (also known as the default tariff cap, or 'the cap') protects domestic customers on default tariffs." Protecting consumers from unnecessary financial burden should surely be Ofgem's main goal here, whether-or-not the Government expects Ofgem to force this cost onto consumers, you are charged with protecting us and you have the power to do so here.

## **Financing The NCC Scheme**

Sentiment only gets us so far, you need a solution for raising these funds. According to the consultation document, the total cost is looking to be in the range of £190m to £260m for this scheme, of which you're looking to pass about 60% on to domestic electricity consumers (£3-£5 per household, 31 million households, gives around £93m - £155m being passed to household consumers).

There are plenty of routes to getting this cost financed without increasing bills for consumers in the slightest. As this is a non-domestic energy cost, it seems logical to me that this should be covered by non-domestic customers.

**Let me ask you this:** when you increased the price cap to account for the Additional Support Credit (ASC) bad debt allowance, or for the Additional Debt Related Costs Allowance, or for the increased EBIT allowance or any of the other dozen or so increases applied to the cap in the last three years, did Ofgem at any point consider splitting those costs between households and businesses?

Of course not, and no one asked you to, because household energy costs should be paid for by households and, vice-versa, business energy costs should be paid for by business consumers. It is the definition of unfair for domestic consumers to be expected to compensate large companies for their energy usage, especially as we already indirectly pay for their usage through increased costs of products and services.

I recommend either of the following options for raising the £190m-£260m required for this scheme:

1. Transfer the entire cost to non-EII, non-domestic consumers. This is probably the fairest way to handle this cost, domestic consumers should not be footing the bill directly for non-domestic energy charges.
2. Split the cost between non-EII, non-domestic consumers and between suppliers, without increasing the cap. This can simply be considered an incidental to come out of the Headroom Allowance, which is £18 per household for "uncertain costs". We're already paying this cost, and the current split for the NCC appears to be 16-33% of the value of the Headroom Allowance, meaning there is still plenty there to cover any remaining uncertain costs. Alternatively, suppliers always have the power to increase the prices of their fixed rate tariffs by a small amount to cover this additional cost, that is a commercial decision for them to make if they wish.

## Answers to your consultation questions

*1. Do you agree with our approach of placing this allowance in Annex 4?*

No. If this cost is to go onto the price cap, it should be updated as regularly as possible. More specifically, I do not understand why the policy cost section of the cap is updated every six months if the cap is updated every 3 months? This was not something I was aware of, but I think all costs in the cap should be updated every time the cap is changed. That includes the allowance for the NCC, if it ends up on the cap.

*2. Do you agree with our proposed methodology and relevant inputs we propose to base the NCC scheme allowance on?*

Again, working under the assumption that you go ahead with adding this new allowance, I do not agree with the proposed methodology. Increasing the unit rates to cover this charge is hugely hypocritical.

Ofgem recently consulted on moving domestic network costs from standing charges to unit rates. The final determination was that you will not move any of the costs over, because any increase in unit rates has a severely negative impact on high-usage vulnerable customers. To now tell consumers that you're keeping standing charges high because it's unfair on high-usage, low income consumers to increase unit rates to cover household network charges, but to then go ahead and increase unit rates anyway to cover business network charges is insulting to everyone and, under your own logic, is dangerous for high-usage, low-income household consumers you're supposedly trying to protect.

*3. If you do not agree with our proposals, do you have any views on alternative approaches Ofgem should consider?*

As for how this scheme should be funded, please see my earlier recommendations. With regards to the previous two consultation questions, if you end up putting the cost onto consumers (WHICH I DON'T THINK YOU SHOULD) my suggestion would be to increase standing charges so the cost is evenly split and protects vulnerable consumers, and to add it to wholesale charges so that it is reviewed every three months rather than every six.

This is a non-confidential response, please feel free to publish this online.

Kind regards,

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