

Welsh Government's response to the consultation on the Standardised Element of Standard Tariffs under the Retail Market Review

Attached is the Welsh Government's response to the Questions raised in the above consultation exercise and of relevance to the Welsh Government.

Do stakeholders agree with our proposed approach to those costs that should be recovered through a standing charge and those costs that should be recovered through a unit rate?

In our response to the December consultation, the Welsh Government highlighted that it was difficult to assess which cost elements should be included in the standard tariff with the evidence presented to date.

The Standardised element consultation provides more information to help inform our opinion, however, the Welsh Government would still like to see more modelling of the impact of the proposals on customers in different regions and on vulnerable customers in particular.

We are broadly supportive of Ofgem's change in treatment of T&D charges, moving these from the standing charge to the unit rate charge. We acknowledge that this is appropriate because the vast majority of T&D charges incurred by suppliers will typically be lower for customers that use relatively little energy compared to those that use a lot of energy. This in turn may benefit low income households who may be low users of energy. If these variable T&D charges were included in the standing charge, then low users could end up with a higher standing charge because they could cross-subsidise higher users.

The evidence reported by Ofgem concerning the variability of the proposed elements within the standing charge and unit rate charge appear to support Ofgem's proposals for what costs are recovered through which charging element.

Do stakeholders have any comments on the proposed broad assessment of the possible elements of the standing charge?

The Welsh Government is broadly supportive of Ofgem proposals to include the following elements within the standing charge:

- Electricity distribution
- ECO
- Warm Home Discount
- Metering
- Suppliers' other fixed costs

However, the Welsh Government would prefer to see the potential impact of this modelled regionally so that we can better understand the potential impact

on bills. We would like to see estimates from Ofgem that compare the proposed standing charge to the current counterfactual.

Do stakeholders have any comments on the treatment of regional cost differences? Do they favour Option 1 or Option 2?

The Welsh Government does not feel that Ofgem have provided enough evidence of the impact on consumer bills in Wales to make an informed decision about which option is preferred at this stage. The Welsh Government notes the pros and cons of each option, but would request that Ofgem carry out more detailed analysis of the impact on bills at a regional level.

Ofgem have estimated that Option 1 could increase the difference between the cheapest and most expensive regions from approximately £55 to approximately £90. However, Ofgem do not provide any analysis about how this regional difference could be effected if we move to Option 2. The Welsh Government is keen to minimise the distributional impacts any new methodology will introduce and the consultation fails to provide enough evidence about the regional and distributional impacts.

The Welsh Government would like to have a better understanding of the relative impact of choosing option 1 or 2 on bills in Wales, including any direct changes to cross-subsidisation e.g. from one type of customer to another or from one electricity customers to gas customers etc.

Conclusions

Overall the Welsh Government remains supportive of the aims of Ofgem to engage consumers more and encourage competition. The Welsh Government hopes that this will help to limit the upward pressure on customer bills that are forecast in the coming years. Although the Welsh Government feels that there is still a lack of evidence supporting these proposals and hence it is not possible to have a view on a preferred option at this stage, it recognises that more evidence may be forthcoming in the final impact assessment. We would like to stress the elements that the Welsh Government request Ofgem to consider when deciding which option to implement. These include:

- Impact on regional bills compared to the counterfactual
- Impact on different customers, especially vulnerable customers
- Impact on transparency
- Impact on cost reflectivity
- Impact on cross subsidisation

Hence the Welsh Government would like to request that Ofgem carry out some more detailed modelling before deciding on which option to implement.