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Standing Charges domestic retail options: summary of responses

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Contact:	Dan Norton
Team:	Retail Pricing
Email:	Standingcharges@ofgem.gov.uk

This document summarises responses received to our August 2024 standing charges domestic retail options paper[1]. It encapsulates views of consumers, charities, and various other stakeholders. This is not a decision document, but rather an update which sets out the feedback that has shaped our planned next steps outlined within our accompanying update[2].

[1] Standing charges: domestic retail options
[2] Standing charges: update on our review

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

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Executive summary

Ofgem's options paper

In our August 2024 options paper on standing charges, we sought input from key stakeholders, including, but not limited to consumers, charities, and industry bodies such as energy suppliers. The response to our options paper on standing charges was significant, with over 5,000 individual consumers contacting us, either independently or as part of email campaigns. Overwhelmingly, those responses called for us to take action to reduce standing charges, with a majority of domestic consumers who responded calling for them to be abolished outright.

Throughout responses from domestic consumers, there was a clear desire for standing charges to be reformed significantly or abolished entirely. Many consumers shared frustrations that they felt standing charges acted to disincentivise reducing consumption, noting a lack of reward for using low carbon technologies, such as solar panels. Additionally, they felt many of the policy costs that are included in standing charges, such as the Warm Home Discount (WHD), Supplier of Last Resort (SoLR) costs, and the costs of upgrading the grid to meet net zero, are unfair to place on consumers and should be met through government taxation or energy suppliers' profits.

Stakeholder responses were more cautious about reforming standing charges. Concerns were raised about the potential effects of reform on vulnerable consumer groups, such as disabled consumers with inflexible high energy needs.

A large number of the responses from suppliers, charities, consumer bodies, energy industry stakeholders, and individual consumers highlighted their view that an energy social tariff would be relevant to our standing charges proposals, in order to support consumers who are facing affordability challenges. There were mixed views about whether this would be best implemented in addition to standing charge reform or instead of it. Industry responses tended to be more in favour of pursuing a social tariff instead of standing charge reform, while individual consumers expressed a desire to see both enacted.

This publication summarises the responses we received and clarifies trends found in the views shared. Noting that no group responded uniformly, this document captures the key trends and viewpoints against the respective call for input questions, as well as significant minority views. This document is focused on summarising stakeholder views, for an update on Ofgem's work to resolve these issues please see our accompanying update letter.

1. Introduction

Background

1.1 In August 2024, we published our options paper on standing charges domestic retail options. This publication continued the conversation on standing charges between Ofgem and our stakeholders to set out further options that could be delivered in the coming months. We invited views from all stakeholders, particularly energy suppliers, consumers, consumer bodies, and charities.

1.2 In our options paper, we outlined two core near-term options:

- **Changing the price cap allocation methodology to move some supplier operating costs from the standing charge to the unit rate:** The options paper outlined a range of options for moving £20 - £100 of operating costs from standing charges to unit rates, and we sought views on whether this would be sufficient, as well as what mitigants might be beneficial to limit risks
- **Increasing consumer choice by increasing tariff diversity:** We also outlined multiple options for how to increase the diversity in standing charge tariff offerings. We encouraged suppliers to offer more low or zero standing charge tariffs and said that we would consider mandating such offerings if we didn't see action in this space. We also considered options for prepayment meter customers in how and when they pay standing charges to reduce the impact of seasonal variation, mitigating harm for prepayment meter customers who experience affordability challenges when energy consumption is higher, i.e. in the winter.

1.3 Our options paper also highlighted the impact of network cost allocation on standing charges. We set out our intention to undertake a broader review of how policy and networks costs are allocated, including how we could keep standing charges down given the expected growth in fixed costs such as for electricity network investment.

Consumer responses overview

Campaign responses

1.4 We received around 4,500 responses across two email campaigns. Similarly to our call for input, these organised campaigns displayed the continued strength of feeling among some of the public for change in relation to standing charges.

1.5 One campaign said that the proposals in the options paper did not go far enough to reduce standing charges and called for them to be abolished. Instead, it argued that the operating cost allowance in the price cap should be reduced, as well as shifted to the unit rate. It also called for policy costs such as Warm Home Discount to be recovered from supplier profits. As an alternative to the standing charge, it called for a rising block tariff, where the first block is enough free energy to cover the household's needs. It argued this could be funded by higher tariffs on usage exceeding what is needed and by windfall taxes on fossil fuels.

1.6 The other campaign called for standing charges to be reduced by more than the proposed £20 - £100 shift, suggesting an approximately £235 reduction, which would reduce standing charges down to £100 per year. It states that as more households would benefit than lose out, this reduction should be implemented and that there should be support for the vulnerable households that would suffer as a result of this shift in costs. The campaign also felt that suppliers are benefitting from excess profits which should be reduced, and that the Earnings Before Interest and Tax (EBIT) and headroom allowances within the price cap are making this worse.

Individual consumer responses

1.7 In addition to the campaign responses, we received 610 responses directly from individual domestic consumers. In reviewing each of these responses we have identified themes which highlighted shared views in how people feel about the proposed options and trade-offs we outlined in the options paper.

1.8 The majority of respondents called for standing charges to be abolished and either for the entirety of the fixed costs shifted to the unit rate, or for the fixed costs to be absorbed by suppliers. They expressed deep frustration at the rate of increase in standing charges in recent years and confusion about why costs have increased.

1.9 Many consumers also expressed that they feel standing charges result in them lacking control over their energy bills, by reducing their ability to decrease their energy bills by decreasing their use and removing the incentive to invest in energy efficiency measures or low carbon technology.

1.10 Policy costs (such as Supplier of Last Resort (SoLR) costs, the costs of upgrading the grid to transition to net zero, and Warm Home Discount) were frequently cited as unfair aspects of the standing charge. Consumers made the case that policy costs should be paid for through taxation as it is a more progressive way of funding projects, and it better reflects the nature of the policies originating from government.

1.11 Some consumers feel they are not being protected by Ofgem when it comes to making energy affordable. Some wanted the price cap to be removed and cited lower standing charges before the cap was introduced. Others wanted energy suppliers to be nationalised.

1.12 Another common theme from the consumer responses was the desire for targeted affordability support, such as a social tariff. Key groups which came up as potential recipients for any potential affordability support included disabled people, people with low-incomes, and pensioners. Overall, we found that the responses from the public raised similar points to those we heard in response to our previous call for input. The strongest message was that standing charges are unfair, and they would like to see fundamental change to how fixed costs are recovered.

2. Case for change

Q1. Do you have any views on our case for change?

2.1 Our case for change considered that despite the cost of energy falling since the height of the cost-of-living crisis, standing charges and unit rates are likely to remain above pre-crisis level. We explained why we anticipated that without intervention, standing charges may continue to rise, outlining key contributors to this potential increase in costs. The case for change also highlighted the potential options for reform, in both short- and longer-term changes. Respondents were asked for their views on the case for change for reducing standing charges and the impact on broader affordability and debt challenges.

Supplier responses

2.2 We received ten responses to this question from suppliers.

2.3 The majority of suppliers agreed that standing charges are contributing to the affordability issues in energy. However, there were differing views on how far the proposals in the paper would benefit consumers. Some suppliers also highlighted potential risks for industry surrounding some of the options outlined in the paper.

2.4 One supplier argued that the price cap should not be used for subsidising consumer groups and the affordability challenge should be met by other measures such as a social tariff. Other suppliers also said that standing charge reform alone would not be sufficient and should be considered holistically with other affordability measures.

2.5 Another response highlighted concern about the negative impact on those who are mid to high users of energy and those customers who are vulnerable and unable to reduce demand, for example, customers with medical conditions.

Energy sector stakeholder responses

2.6 We received six responses from other energy sector stakeholders, such as network companies. Overall, they expressed doubt regarding the case for change.

2.7 Three networks argued that affordability challenges should be resolved by government policy interventions such as a social tariff, rather than through changes to the standing charge.

2.8 Many also said that there is a potential impact on the financeability of networks from shifting costs on to unit rates. The responses suggest that cost recovery is moving into volatile territory could impact risk profile of networks.

Consumer body and charity responses

2.9 Consumer bodies and charities agreed with the case for change overall, with many highlighting the affordability challenge faced by consumers.

2.10 Some organisations argued the case for change should go further and they would like to see deeper reforms to the standing charge to give consumers more control over their energy bills.

2.11 However, some charities urged Ofgem to consider the unintended consequences for those who rely on higher energy usage and are already struggling with energy debt. Similar to other stakeholder groups, many charities called for action in collaboration with government such as a social tariff.

2.12 Disability charities also highlighted that some vulnerable disabled people may suffer significantly if costs are shifted from the standing charge to the unit rate. This is partly due to many disabled people having inflexible high energy needs due to their disabilities or medical equipment.

3. Considerations for shifting operating costs from standing charges to unit rates

Q2: What are your views on the range (£20 to £100) of operating costs we are considering shifting from standing charges to unit rates? Should it be higher? Within this range, is there a value you would favour and why?

2.13 In our options paper we outlined considerations for shifting some of operating costs from the standing charge to the unit rate. We asked for views on the proposed shift of £20 - £100 of operating costs from the standing charge to the unit rate, and if there were any potential trade-offs or impacts that we would need to consider if we were to shift costs in this way.

Supplier responses

1.1 We received eleven responses to this question from suppliers.

1.2 Suppliers were overall opposed to the proposed shift of operating costs to the unit rate. Two suppliers said that it is not possible to give an assessment of the proposal before the operating cost review has concluded. Some also said that there is a risk of under recovery of costs for suppliers if their consumer base has below average consumption, and for the market as a whole if demand is lower than expected, for example due to warm weather. They argued that this may mean there needs to be a risk premium added to unit rates in order to counter this.

1.3 One supplier argued that it would be more efficient to reverse the conclusions from the TCR and instead revert to electricity network costs being included in the unit rate. It was suggested that this approach would have the most significant reduction in standing charges at the least risk. It argued that the relative risk premium which networks would have to build into their model would be lower than that of suppliers, as it claims networks have guaranteed returns, true-up mechanisms and have a much lower cost of capital.

1.4 Other suppliers welcome the proposed shift. However, the majority who expressed support favoured a shift in the lower half of the proposed £20 - £100 scale. One reason given for this was that the lower shift would minimise competitive distortions. However, one supplier held the position that we should be moving as much of the standing charge fixed costs onto the unit rate that is reasonably possible to ensure the maximum possible reduction. Another supplier expressed support for a £50 shift, as that would provide an incentive for customers to manage their energy, which they suggest would aid the transition to net zero.

1.5 Other suppliers also noted that a shift in the lower half of the range would make minimal material difference to consumers.

1.6 Another supplier also said that it did not believe that any mitigation would be needed for suppliers to address the risk of under recovery of fixed costs. It suggested that under the current price cap structure, much of the allocation between standing charges and unit rates is subjective and not necessarily rooted in concrete cost drivers.

Network responses

1.7 One network respondent emphasised shifting cost recovery to unit rates could have an impact on the financeability of networks, impact cash flow, and result in a higher risk profile. They argue this would happen because the differing rates of energy consumption by consumers, particularly of gas, throughout the year would have significant implications on the variability of cashflow for fixed costs such as network capacity. Additionally, at a time when the future of the gas network is uncertain, a perception that cost recovery is moving into more volatile territory could affect the risk profile of the networks.

1.8 Others expressed a view in favour of shifting some supplier operating costs to the unit rate. However, it was noted this could disincentivise the uptake of low carbon technologies and suggested rebalancing policy costs between electricity and gas.

Consumer body and charity responses

1.9 We received 22 responses to this question from consumer bodies and charities

1.10 The key reasons given in support of shifting operating costs included giving consumers a greater sense of control over their energy bills, the potential for this measure to have an overall progressive effect in reducing bills for lower income consumers, with more low-income consumers benefiting than losing out from a shift.

1.11 However, a third of overall responses and almost half of the organisations who expressed support, said that their support was conditional on appropriate support being in place for key vulnerable groups – particularly disabled people who are more likely to have low incomes and high energy use needs. They cited a social tariff as an example of a mitigatory measure they would support.

1.12 One charity also highlighted that shifting too high an amount onto the unit rate risks developing a system which encourages people to cut back on energy use to dangerous levels.

1.13 Another charity held the view that moving operating costs onto the rate will have a negative impact on decarbonising domestic property and transport. The reason given being that increasing the unit rate of electricity will reduce the incentive for consumers to transition to heat pumps and electric vehicles.

Q3: What are your views on the trade-offs and impacts we have identified for consumers and suppliers? Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?

1.14 In the options paper we laid out our view of the trade-offs and impacts of shifting operating costs. Key considerations included the detrimental financial impact on low-income, high-using consumers as well as the potential impacts to supplier stability.

Supplier responses

1.15 We received eight responses to this question from suppliers.

1.16 All responses mentioned the need for collaboration between Ofgem and the government on holistic affordability measures with the intention to lessen the negative impacts for vulnerable low-income consumers.

1.17 One supplier said that the data currently available within the industry would make it difficult to mitigate the impact any reduction of standing charges would have on low-income high usage consumers. In order to identify where the most fuel poor customers live, they suggest more data matching is needed.

1.18 Another supplier felt that Ofgem should consider whether there is scope to profile the recovery of fixed costs in such a way that would allow customers to further benefit from load shifting. This method of cost recovery could promote the behavioural change that could offset some of the need for grid reinforcement which is driven by peak demand.

1.19 This response also stated that any incremental change that does not deliver sufficient benefits to consumers could damage trust in the sector, particularly if vulnerable customers are negatively impacted by any changes without additional support being provided.

Network responses

1.20 We received one response to this question from a network.

1.21 This respondent raised concerns that if a reduction in standing charges is applied through the price cap without changes to network charges, suppliers may have to take a hit on fixed costs. They suggest that this would lead to suppliers raising the unit costs for low usage customers.

Consumer body and charity responses

1.22 We received fifteen responses to this question from charities.

1.23 One respondent argued that the potential benefits to consumers outweigh those to suppliers. The response highlighted that they would not support a universal reconciliation mechanism. They argue this is because, following changes to how fixed costs are recovered, a fall in suppliers' profits would be a commercial issue that suppliers should seek to address by acquiring a different mix of customers. Where suppliers offer tariffs with very low standing charges it was suggested the charity would support some form of reconciliation mechanism.

1.24 Disability charities raised concern that Ofgem's analysis was reliant on consumers being in receipt of disability benefit as a proxy for disability, which may exclude disabled people who are not claiming this benefit. They asked for a thorough analysis of the effects on disabled people on low incomes, which would include people with complex disabilities, who have high energy needs. They requested that Ofgem's impact assessments should broaden their definition of disability, aligning with the 2010 Equality Act, as the current reliance on disability benefits as a proxy excludes millions of disabled individuals.

1.25 A few charities said that the impact on pre-payment meter (PPM) customers should be prioritised. One said that there is a case for some reduction in the standing charges recovered from PPM customers, given the more contingent nature of the potential service demand that PPM customers can place on the system.

Q4: What are the changes required, if any, to the price cap to facilitate a reduction in the level of the operating costs charged through the standing charge?

1.26 We wanted to hear from respondents on whether they thought the proposed changes could be implemented with the price cap in its current form, or if they believed any changes to the price cap are necessary.

Supplier responses

1.27 We received ten responses to this question from suppliers.

1.28 The responses from suppliers centred around the risk of under-recovery for suppliers if the operating cost shift proposed were to take place.

1.29 Multiple suppliers called for Ofgem to update the benchmark consumption in the price cap. They argue that balancing cost recovery onto unit rates reinforces the case for updating the benchmark consumption used as part of the cap methodology, which has not kept pace with changes in typical consumption since 2017. According to one respondent, the current cap methodology does not take account of variation in average consumption by payment type, although consumption can vary substantially.

1.30 Some suppliers also called for a risk premium to be added to the price cap, to offset the risk of under-recovery that could be created by lower standing charges, for example if there is warmer weather than typical.

1.31 However, one supplier argued strongly that there should be no additional price cap allowance and suppliers should not be allowed to charge an additional 'risk premium' to mitigate the risk of under recovery as it says the additional risk is small compared to the risks suppliers already have to account for.

1.32 Another respondent outlined concerns that the price cap was designed to ensure the price of default tariffs reflect the fair cost of energy and ensure that companies can recover their costs in a sustainable and efficient way. They argue that it is not the correct mechanism to use as an affordability measure to transfer energy costs from one consumer group to another.

Consumer body and charity responses

1.33 We received nine responses to this question from consumer bodies and charities.

1.34 The consensus among responses was that changes to the price cap may be needed to facilitate greater variety in standing charge offerings.

1.35 One respondent outlined its view that the price cap structure must be adjusted to allow suppliers more flexibility in cost allocation between the standing charge and unit rate. Introducing differentiated price caps based on consumption or household characteristics could help mitigate the impact on vulnerable consumers. It continued, explaining it may be necessary to introduce or enhance supplier obligations to protect vulnerable consumers from price increases.

1.36 Another organisation suggested creating a variant of the price cap, that has a lower or no standing charge and allows for higher unit rates. They argued that this could support customers who are vulnerable and have high energy usage needs if suppliers are expected to identify them in order to help them onto the higher standing charge option if it would bring down their overall energy bill.

1.37 One organisation argued that Ofgem needs to incentivise suppliers to reduce their operational costs. It suggests that currently suppliers are incentivised to keep their operating costs high because they can get higher EBIT and headroom allowances by having higher costs. This echoes what we heard from one of the campaigns, which also called for the EBIT and headroom allowances to be reformed.

4. Increasing consumer choice through tariff diversification

Q5: Could mandating suppliers to have at least one low or no standing charge tariff available to customers help promote competition in this area of the market?

1.38 In the options paper we laid out the possibility that if the number of low or no standing charge tariffs in the market does not increase, we may consider mandating suppliers to offer a tariff option for both gas and electricity consumers that has either low or no standing charges. We sought views on the potential benefits and harms of introducing a mandatory requirement for suppliers to provide this tariff.

Supplier responses

1.39 We received eleven responses to this question from suppliers.

1.40 All supplier responses received did not support the mandating of low/no standing charge tariffs. The majority believed that mandating would risk creating financial problems for suppliers.

1.41 A commonly given reason for opposing mandating these tariffs, is that there are a number of suppliers who already offer low/no tariffs without being mandated to, so a mandatory measure is unnecessary. Furthermore, the reason there aren't more being offered is due to the current volatile market conditions with the gas crisis meaning it is not commercially viable to offer these tariffs. Therefore, they argue that as the market becomes less volatile over time, we will see more of these products become available as competition increases. They claim that mandating tariffs would damage the competition within the market and is a step in the wrong direction.

1.42 One supplier also stated that the best way to support tariff diversity is to address network charging constraints.

Consumer body and charity responses

1.43 We received nineteen responses to this question from consumer bodies and charities.

1.44 Most consumer bodies and charities expressed support for mandating low or no standing charge tariffs. Reasons given for supporting this measure included greater choice and control for consumers and stimulating competition in the energy market.

1.45 However, some respondents opposed mandating tariffs, as they argued the higher unit rate means it would not provide a significant benefit to consumers and therefore Ofgem should focus on more effective measures.

Q6: How could we create flexibility in how costs are recovered between the unit rate and standing charge without reducing the protection provided by the cap?

1.46 The method by which the price cap is set limits how much flexibility suppliers can have in setting their unit rates and standing charges. We asked for views on how we could increase the flexibility so that a wider range of tariffs can be offered, without leading to detriment of consumers.

Supplier responses

1.47 One supplier argued that the lowest risk element of the energy supply chain is the network and distribution companies. With a regulated profit and true up mechanism in place already, the respondent argued that those companies are best placed to take this risk of increased flexibility in cost recovery.

1.48 The case was also made that Ofgem could facilitate increased diversity by moving away from the current structure of the price cap, thereby giving suppliers greater flexibility to set different compliant standing charge/unit rate combinations. It was also noted that diversity is more relevant to competitive tariffs that customers actively choose than those on default tariffs.

1.49 Some suppliers did not recommend significant changes to the price cap as they argued it could reduce price protection for customers on standard variable tariffs.

Consumer body and charity responses

1.50 Most consumer bodies and charities urged us against making changes to increase flexibility, as they believed that this would inevitably lead to a loss of protection for consumers, particularly vulnerable low-income consumers.

1.51 One organisation suggested that a flexible approach could involve introducing a "split cap" model that sets separate caps for standing charges and unit rates. They also suggested flexibility could be introduced through seasonal or usage-based adjustments that align tariff structures with consumption patterns. For instance, standing charges could be reduced or eliminated during periods of low consumption.

Q7: In exploring alternative approaches to price cap compliance, what, if any, safeguards would be needed to protect vulnerable consumers?

1.52 As part of our considerations, we sought feedback on what protective measures Ofgem would need to implement in order to protect vulnerable consumers should the options outlined be implemented.

Supplier responses

1.53 The overarching message we heard from suppliers was that additional mitigation is needed in the form of a government social tariff, and that this should be in place to keep consumers protected before any standing charge reforms are made. Some suppliers said that this measure should be in addition to standing charge reform.

1.54 One supplier suggested that greater diversity in tariffs could mean that there would be fewer consumers who lose out as pricing can be optimised to reflect unique costs. They argued that safeguards tend to restrict suppliers' ability to optimise pricing.

1.55 However, other suppliers highlighted that low or no standing charge tariffs may need eligibility requirements to stop consumers from unintentionally signing up to tariffs that would make them worse off.

1.56 One supplier said that the price cap should not be used for subsidising consumer groups as it was not implemented to be an affordability support measure. Instead, they argued that government would be a more appropriate source of support, such as providing a social tariff. Consumer body and charity responses

1.57 Consumer bodies and charities strongly urged us to ensure any changes made were properly vetted to ensure no loss of protection for consumers.

1.58 Multiple organisations cited Ofwat's WaterSure scheme as an example of a supportive measure that Ofgem could implement. WaterSure is an example of a social tariff that caps water bills for some consumers to help with affordability. It is open to people on benefits and who need to use a lot of water either for medical reasons or because their household has a certain number of school-age children.

1.59 The case was raised that if other affordability measures were introduced, such as a social tariff, eligibility criteria should be carefully considered to avoid vulnerable consumers being excluded. One charity cautioned against sole reliance on means tested benefits for the eligibility criteria as they say this excludes those on low incomes who narrowly miss out and the many households who do not claim the benefits they are entitled to.

1.60 We also received calls for the Warm Home Discount to be expanded by adding recipients of disability benefits and people with terminal illnesses to the eligibility criteria.

1.61 Other proposals put forward included introducing a consistent up-front rebate scheme for the cost of running medical devices, offering tailored price caps for vulnerable groups, implementing automatic eligibility for the priority services register and placing a cap on pre-payment meter standing charges.

Q8: What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?

1.62 In the options paper we discussed lowering standing charges for pre-payment meter customers in the winter and increasing them in the summer, to smooth the costs over the year for these consumers. We also considered the option of allowing standing charge debt or arrears to be paid off on a longer timescale so that PPM consumers can apply any top up to consumption immediately.

Supplier responses

1.63 The majority of suppliers opposed our proposals on smoothing of PPM costs with a number of alternative options being suggested.

1.64 It was highlighted that there are technical issues around the smoothing of PPM, particularly concerning legacy meters. Suppliers argued that legacy meters and the increased time and resource the changes would require meant it would not be able to implement these changes by April 2025. They also argued that implementing the proposed changes may lead to increased costs and potentially increase levels of bad debt in the industry.

1.65 One supplier argued that instead of this measure, more should be done instead to transition away from traditional PPM meters and accelerate the smart PPM rollout. They argued that suppliers have a much clearer understanding of their customer if they have a smart PPM and they can do more proactively to support customers, such as providing them with credit remotely.

1.66 Another argued that not all PPM consumers would want the costs of their standing charges to be smoothed over the year, so it should not be pursued. It was also noted that some suppliers already offer a savings mechanism to PPM customers to help them spread their costs over the year.

1.67 One supplier raised that any approach taken on smoothing the costs should not exacerbate the issues where standing charges accrue in the summer when there is little to no gas used.

1.68 Another supplier said that recovering standing charges from the emergency credit allowance is clearer for customers, as the emergency credit is used at the same rate as customer credit.

Consumer body and charity responses

1.69 Consumer bodies and charities expressed a desire for more protection and support for PPM customers. However, some organisations were concerned that higher costs in the summer would increase the risk of the build-up of debt over those months, leading to consumers being unable to reconnect in the autumn.

1.70 A charity also raised that disabled people often have high energy use all year round. As a result, a higher standing charge in the summer would likely make them worse off, so if this option was to be introduced it should only be an optional measure.

1.71 Another organisation called for PPM standing charges to be abolished and costs moved entirely onto the unit rates with more support given to PPM customers in debt. Alongside this they suggest an expansion of the list of customers who are deemed unsuitable for PPM installation and more rigorous checks to ensure those with health or disability needs are not on a PPM.

1.72 One organisation told us that they thought Ofgem should focus on standing charge debt accrued during periods of disconnection. They identified two potential pathways for smoothing standing charge costs for prepayment meter households: changing the register on which standing charges accrue during periods of self-disconnection and facilitating partial repayment of standing charge debt using a repayment rate function.

1.73 A charity highlighted that many disabled people still face high energy costs in the summer months, so any shift to higher summer standing charges for PPM customers should be made optional so that disabled people do not face a higher burden.

1.74 One organisation made the case that our proposed smoothing for prepayment meters seems to conflict with the rest of the paper which would make payments across the year less smooth by shifting costs to the unit rate.

5. Network and policy cost allocation

Q9: Do you have any views on our considerations for the allocation of network and policy costs?

1.75 We explained in the options paper that we expect network and policy costs to increase in the future, and we are planning to review how they are allocated to understand whether we could make further changes that would benefit customers as a whole. We sought views on the considerations we set out in the paper on longer term options for standing charge reform.

Supplier responses

1.76 All suppliers who expressed a view on our proposed review of network and policy costs were supportive of a review of these costs. Specifically, a review of the Targeted Charging Review (TCR) was mentioned in multiple responses. One supplier argued this review should include an examination of regional charge differentials as well as the balance between standing charge and volumetric cost recovery.

1.77 One supplier mentioned the possibility of the government looking at recovering these costs through general taxation given the significant investment for grid reinforcement. They argued that this would likely improve the affordability of energy bills for consumers.

1.78 Other suppliers said they are supportive of rebalancing some policy costs from electricity to gas to support the transition to net zero. However, one supplier proposed that a review into network and policy costs could lead to uncertainty around costs. They further argued that this will make fixed tariffs uncompetitive with the price cap.

1.79 Another supplier also said it welcomes a review into cost allocation, but that the uncertainty of a review is unhelpful for investment in low carbon technologies. so Ofgem should provide a clear scope to the review process as soon as possible.

Network responses

1.80 The majority of network company responses welcomed a review of how network and policy costs are allocated. All responses emphasised that any changes should be based on cost reflectivity and retain an appropriate level of standing charge.

1.81 One network called for caution on any further banding around 'ability to pay' and levelisation of regional Distribution Use of System (DUoS) charges. Two networks called for the review to be aligned with the DUoS Significant Code Review to ensure immediate and joined up progress.

1.82 One network highlighted that TCR reforms have had limited time to bed in but recognised value in a longer-term, post implementation review of TCR. Two networks that also emphasised support for the founding principles of the TCR, called for further reform to 'forward looking charges' to address the quantum of the residual costs.

Consumer body and charity responses

1.83 All consumer bodies and charities who expressed a view on our proposed review of network and policy costs were supportive of a review into how these costs are allocated.

1.84 One organisation argued that Ofgem should consider transferring five elements of standing charges (the adjustment allowance, headroom allowance, profit allowance, payment uplift and levelling costs) entirely to the unit rate.

1.85 Another respondent called for some policy costs, particularly legacy policies such as the Renewables Obligation and Feed-in Tariffs, to be moved to general taxation. Another called for policy costs to be shifted from electricity to gas, to reduce the 'spark gap'. This is the difference in prices between gas and electricity.

1.86 It suggested that it is illogical that the Warm Home Discount levy is applied to electricity and not gas when the majority of homes are heated by gas. Other organisations called for the Warm Home Discount to be removed from bills and funded either by general taxation or an energy industry contributions scheme.

1.87 Multiple organisations also asked us to consider moving network costs to the unit rate, so that they are funded in a more progressive manner. Regional differences in network costs were also raised as an issue across multiple responses, with some wanting them equalised across regions, highlighting rural affordability challenges some consumers face.

1.88 Additionally, some organisations supported setting half hourly electricity charges at a regional level. While another organisation argued that regional variance should be considered as part of government's 'Review of Electricity Market Arrangements' (REMA) rather than standing charges review.