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Sent to: standingcharges@ofgem.gov.uk.
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Ref: Ecotricity response: Standing charges - Domestic retail options

Dear Colleagues

We welcome the opportunity to provide input into this options paper in relation to Domestic standing charges.

Ecotricity was the world's first green energy company when we were established in 1995 and we now have over 175k domestic and non-domestic supply accounts, alongside over 100MW of self-developed renewable generation capacity. We continue to invest in new sources of renewable generation that has recently led to the build of two new solar parks and our first green gas mill, with our first energy storage site recently obtaining its generation licence. We support policy ambitions that enable the UK to accelerate its drive towards a net zero energy system, whilst ensuring a security of supply that is cost efficient for consumers.

We support the need to review, with caution, the standing charge; to ensure that consumers are provided protection from the standing charge methodology and that any proposed charges are fair and reflective for all consumers. It's essential that when looking at future methodology the industry protects vulnerable customers, incorporating both financial and medical vulnerability. These customers could be susceptible to increased costs when moving cost elements such as TCR back into the unit rates.

Please find our responses to the question posed within the options paper below:

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

We understand the rationale being proposed to move a proportion of supplier operating costs from the standing charge to the unit rate; however, we would highlight that from a consumer cost perspective this change will adversely impact those who are mid-to-high range users.

From a drive to net zero perspective, this change could incentivise consumers to reduce their demand, in order to benefit from the cost component change, which we would support as an outcome; however, we must also highlight the adverse cost impact this could have on a vulnerable customer base, who have limited options to reduce demand (i.e. – for needs of medical equipment).

Q2) What are your views on the range (£20-£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?

The proposed range of £20-£100 is wide and could lead to a significant shift in the consumer cost saving profile, depending on whether it sits at the lower or higher end of this banding.

Analysis of our current customer base would suggest that a £50 cost shift should be the upper limit considered, in order to satisfy a balance between encouraging demand reduction, while limiting the financial impacts on higher-consumption users. Any increments beyond this and the adverse impact on consumer cost would be significant.

A £50 cost shift provides an incentive for customers to manage their energy more efficiently, contributing to the transition to a greener energy system, while customers observe the reduction in standing charges as a positive move forward.

Q3) What are your views on the trade-offs and impacts we have identified for consumers and suppliers?

Consumer Impacts:

Certain cohorts of vulnerable consumers (those with a consumption threshold below Ofgem's TDCV) and low energy users will benefit from an industry cost shift away from the standing charge, however, on the opposite spectrum high-consumption households, including a percentage of vulnerable households requiring consistent heating or medical equipment, would see a financial detriment.

The risk for those customers within a high user, vulnerable cohort, is that they could be faced with restricting their energy usage to save cost, which could impact health.

There is also a risk that this change could create a barrier for those households looking to transition to heat pumps and/or electric vehicles, through an increase in their energy bills, which would be counterproductive to the drive for net zero.

Supplier Impacts:

Shifting costs across to the unit rate decreases the certainty on cost recovery for suppliers and places greater reliance on consumer demand patterns. This could lead to a potential impact on cashflow, particularly on a seasonal basis, given lower demand across summer months. The current methodology (ie - the industry costs are incorporated within the standing charge), allows suppliers greater stability on cashflow and provides a more accurate prediction of industry costs and subsequent revenues.

It's essential that suppliers can continue to adequately recover costs and in turn deliver profitable energy rates, to both support the development of innovative tariffs and meet the necessary capital adequacy requirements placed on the industry.

Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?

Given the possibility for this change to lead to higher consumer costs, it is important to consider the impact this could have across all cohorts of vulnerable customers.

As outlined above, households where there is a medical dependent, will generally have higher than average consumption, which could result in disproportionate cost increases through the implementation of a higher unit rate; however, households with financial vulnerabilities tend to have lower consumption and our analysis indicates that this cohort of customers would benefit from a shift to the unit rate.

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?

The primary challenge with the current proposal is that it will create difficulties in accurately reflecting operating costs within the price cap and ultimately poses a risk to suppliers of not being able to recover all costs; or inversely consumers covering a greater value than needed.

We would welcome any thoughts on how the proposals in current guise would intend to work within the price cap methodology, in order to provide more detailed commentary.

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?

We do not agree that mandating suppliers will be an effective route to delivery, as it removes the potential for a free market within this space and could stifle innovation.

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?

This is a challenge given the risk profile to either the supplier or consumer through the cost recovery, which could be either over or under, based on how this change would interact with the current cap methodology. It is possible that over and under values could be centrally managed and redistributed, however this would require administration and would essentially add more cost into the energy bill, which would be adverse for consumers.

Q7) In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?

This is one of the greatest challenges under the current proposal, as we have highlighted throughout this response. The vulnerability cohorts are wide ranging and as such this change would be detrimental to many; this area needs greater thought to ensure that there aren't unintended consequences from a change.

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

This a challenge, as a movement from standing charge to unit rate would mean a higher proportion of a consumer bill is variable and as such dependent on demand. This would mean that over the winter months prepayment meter customers would ultimately need to provision for higher bill costs relative to summer (versus the current methodology). Given that a subset of these customers have a prepayment meter due to either debt, or to support their financial planning, it has the potential to further increase the risk of affordability challenges.

We would propose that discussions are held in conjunction with bodies such as, the Department of Work and Pensions (DWP), to ascertain the potential impact.

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

We do not have a firm view at this stage; however, we welcome the opportunity to work with Ofgem in the re-examination of standing charges over the longer-term horizon, as the market evolves and in turn the reflective cost profiles for both networks and policies changes.

This response is not deemed to be sensitive.

Should you require any further information, please let me know.

Many thanks

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Sent on behalf of Ecotricity.