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ESO Response to Ofgem's standing charges: domestic retail options paper

Dear Dan,

Thank you for the opportunity to respond to your consultation on standing charges in the domestic retail market

Who we are

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system, which is reliable, affordable, and fair for all. To do so we will consider the energy generation mix, the network infrastructure and the markets frameworks needed to deliver the ambition to achieve clean power by 2030, as well as looking further to the strategic plans leading onward to 2050. We play a central role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate network and market-based solutions to the challenges posed by the energy trilemma.

As National Energy System Operator (NESO) we will continue to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. We will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

Our key points

We are in favour of moving some of the suppliers' operational costs from the standing charge to the unit rate, believing there would be consumer benefits for low income, low usage households who would see a reduction in their bills.

However, the resulting increase in unit rates may limit the uptake of low carbon technologies, such as heat pumps or Electric Vehicles (EVs). This could be ameliorated by rebalancing policy costs (including non-fixed) between electricity and gas, which we feel needs urgent attention.

We believe that vulnerable users with high energy consumption that are impacted by this change should receive specific, targeted bill and energy efficiency support so that they are not worse off because of lower standing charges and increased unit rates.

We note that the targeted charging review (TCR) reforms only went live in April 2023 and have therefore had limited time to embed. However, we recognise in the longer term the need to ensure the reforms have performed against the core principles, and therefore support a longer term, post implementation review of the TCR reforms.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Niall Coyle, Commercial Code Change Lead, at niall.coyle@nationalgrideso.com.

Yours sincerely

Penny Garner

Head of Market Frameworks

Appendix 1 Consultation Question Responses

Question 1: Do you have any views on our case for change?

We welcome that Ofgem is approaching this review with an open mind, considering whole system reforms that might change the way consumers are charged for their energy use as we move to a cleaner energy system. We acknowledge the widespread concern around customer affordability, the current high level of standing charges and their expected growth in the coming years. We would also like to highlight the importance of cost-reflective charging, as it impacts how and when consumers use energy, in turn impacting system costs and consumers' bills. We believe the price signals that consumers receive should be coherent and based on sound principles that apply equally to electricity and gas.

Question 2: 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?

We are in favour of moving some of the suppliers' operational costs from the standing charge to the unit rate, believing there would be consumer benefits for low income, low usage households who would see a reduction in their bills. This shift of cost to the unit rate could also encourage and empower a broader set of consumers to reduce their energy consumption and be more energy efficient. However, the resulting increase in unit rates may limit the uptake of low carbon technologies, such as heat pumps or Electric Vehicles (EVs). This could be ameliorated by rebalancing policy costs (including non-fixed) between electricity and gas, which we feel needs urgent attention.

An additional impact is that domestic users with higher-than-average consumption would pay more following such a change, than they do at present. Some may be wealthy owners of large homes; however, some may be low income or vulnerable users, and may experience high consumption due to medical needs, homes with high daytime occupancy or high temperature needs. We believe that vulnerable users with high energy consumption that are impacted by this change should receive specific, targeted bill and energy efficiency support so that they are not worse off because of lower standing charges and increased unit rates.

Question 3: 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?

No Comment

Question 4: 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?

No Comment

Question 5: 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?

No Comment

Question 6: 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?

No Comment

Question 7: In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?

No Comment

Question 8: What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?

No Comment

Question 9: Do you have any views on our considerations for the allocation of network and policy costs?

We welcome Ofgem's call on government to consider how future policy costs should be allocated, with attention to achieving the right balance between electricity and gas. This should include both fixed costs to keep standing charges low, but also volumetric policy costs (e.g., CfD and CM levies) that could be dynamically allocated in order to encourage consumer response that helps reduce system costs. At present, levies are known to be one factor holding back consumer response to thermal constraints, because they add to the marginal cost of consumer demand turn-up that could otherwise help the ESO's Local Constraint Market. For example, the cost of charging electric vehicles with excess energy during grid constraints is then more expensive to supply than the market price (set by the cost of the alternate action of curtailing excess renewable generation in Scotland). For this reason, we support consideration of dynamic approaches that could help incentivise consumer demand flexibility, drawing upon evidence from the consumer trials of the Government-led Alternative Energy Market programme and other innovation projects, including in other jurisdictions.

The aim of reforms to the recovery of "residual" network charges through the Targeted Charging Review (TCR) was to make sure that all electricity users pay towards the costs of the networks on which they rely. The network cost elements that feed into electricity standing charges could be viewed as a part of the enduring costs of the system, covering fixed operational costs of serving each electricity customer, helping to fund the new the electricity network build, upgrade, and maintenance costs. These are seen as necessary to keep all consumers connected and to drive progress towards net zero.

With regards to the TCR decision we note that the transmission demand residual (TDR) reforms only went live in April 2023 and have therefore had limited time to embed and allowed to have the desired effect. However, we recognise in the longer term the need to ensure the reforms have performed against the core principles of reducing harmful distortions, ensuring fairness and proportional charges for all users, and therefore support a longer term, post implementation review of the TCR reforms.