

Non-confidential

20 September 2024

Standing charges: domestic retail options

Dear Dan,

Thank you for the opportunity to respond. We have set out detailed answers below on actions Ofgem can take now to drive down energy bills for the long term as well as look again at the distribution of costs between standing charges and unit rates.

We support Ofgem looking at reforms that reduce standing charges to help all consumers have greater control over their bills and, for some, help them save money through efficiency. Octopus charges 4-5% below the price cap for standing charges, but it's almost impossible to go lower because of the fixed system costs that we incur. We are acutely aware that these system costs are expected to rise very significantly in the future, especially as a result of network build to meet net zero, and it is vital that we find a more appropriate way of recovering these costs from customers.

In particular:

- We agree it is right for Ofgem to be looking at the allocation of costs between standing charges and unit rates. Reallocation of the proposed range of supplier operating costs should not require any "risk premium" mitigation for suppliers and this is the condition on which we support this approach. We also agree that Ofgem should not completely abolish standing charges.
- Any decision to move costs onto unit rates should be accompanied by extra support for vulnerable households who may lose out. Our data suggests that vulnerable customers¹ who would experience bill increases represent 1% of our customer base on our SVT. If this is extrapolated across the country, this could mean 1% vulnerable customers could be negatively impacted by the proposals. We stand ready to support Ofgem, working with the Government, to find ways to mitigate the impact on those customers. This is an opportunity to test out targeted

¹ Defined for the purposes here as customers who are in receipt of WHD; and/or; have a PPM; and/or are in council tax band A.

bill support. We encourage Ofgem to explore ways of making the recovery of fixed costs via unit rates under the price cap more progressive, though we acknowledge that this will make the price cap adjustment more complex.

- We don't support Ofgem mandating tariff types/structures. Mandating a zero standing charge tariff in particular would be harmful to retailers and potentially regressive – allowing those with second homes or good insulation and in-home generation to avoid paying their contribution to fixed costs on the system. Mandating innovation rarely works and we urge Ofgem instead to consider ways to make it easier for suppliers to innovate – should they wish – on regulated tariffs.
- We recognise that options for smoothing payments for prepayment customers throughout the year could provide benefits to some customers. While single solutions are unlikely to work for all customers, there could be merit in exploring options to smooth payments for prepayment customers which can help them avoid falling into debt and arrears. However, we would also recommend that Ofgem and the government focus on levers which can directly tackle debt and affordability more directly for PPM customers.

Ofgem's commitment to looking at network charge reform again is very welcome and should proceed at pace. The network cost elements on the bill are likely to more than double over the next few years (and will be even greater if we have to pay for stranded gas distribution assets). Ofgem must think hard about how to keep these cost increases down (including through better use of smart grid technology and using flexible demand solutions) but it is also imperative to find a future-proof way of recovering these fixed costs, which is socially acceptable and less regressive than the current approach. We note that Ofgem is in the early stages of exploring the potential to recover the fixed charge element of DUOS according to council tax band and we support Ofgem investigating these types of ideas. In general, and notwithstanding our support for opex rebalancing noted above, it is better to amend the structure of network charges and other regulated supplier input costs and let this flow through to lower standing charges for customers, than to "force fit" the recovery of fixed costs through unit rates in the design of the retail price cap.

Finally, we agree with Ofgem that standing charge reform alone won't cut energy costs. The best way to protect customers is by transitioning faster to a cheaper, greener system:

- The Government must build more renewables and update the energy market for a renewables-driven future. Locational pricing reform would lower bills for all households, especially in regions like Scotland, which could have the cheapest

electricity in Europe. The Government's Review of Electricity Market Arrangements is a key chance for this change.

- We support Ofgem's call for reforms in policy cost allocation between taxpayers and billpayers, as well as between fuels. These changes are essential for electrification and consumer flexibility, both of which are critical for future customers in the retail market. Ofgem should continue advising the Government on this matter.

We would be happy to help should you require further information on our response.

Yours sincerely,

Alexandra Meagher

Group Head of Regulation

Octopus Energy

Case for change

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

We substantively agree with Ofgem's case for change. Our three major concerns with standing charges in their current form are:

1. **Standing charges have significantly escalated recently:** They have increased by 88% since the price cap was launched in January 2019, while for electricity specifically they have increased by 163%.² With the current approach to the price cap and the very significant expected spending on networks over the coming years, they are expected to continue to increase on this trajectory. We need to get a grip of this now.
2. **Consumer control:** The higher the standing charge – i.e. the unavoidable part of the energy bill – the harder it is for customers to manage their energy costs through energy efficiency or shifting their consumption.
3. **Distributional fairness:** Standing charges disproportionately impact lower energy users, for whom they make up a larger proportion of the bill. These users tend to be on lower incomes (though this is not always the case). Those on gas prepayment meters (PPMs) have to pay a cost just to access energy (i.e. they specifically have to keep topping up the gas meter over the summer, even when the heating is off, to keep up with standing charge, or clear this accumulated cost when switching on heating in the winter).

We consistently price our standing charges below the nil consumption cap by 4-5% and absorb around £70 million of costs a year to do so. We also provide standing charge holidays of up to six months for those who can least afford energy³ – over the last two years we have supported c.36,000 customers with standing charge holidays, worth around £10 million. We are continuing this support this winter.

² For a dual-fuel customer paying by direct debit, the nil consumption cap has risen from £169 in January 2019 to £315 in October 2024 (not including levelisation and before VAT), with the electricity nil consumption cap rising from £79 to £208 (<https://www.ofgem.gov.uk/decision/default-tariff-cap-decision-overview>)

³<https://octopus.energy/press/octopus-takes-stand-against-standing-charges-with-40m-package>

We understand and empathise with the weight of responses that Ofgem received to its call for input citing standing charges as unfair and calling for their abolition. However, the presence of fixed costs in the energy system, particularly those costs which suppliers are charged on a per-customer basis, means that it will be difficult to completely get rid of standing charges. We agree with Ofgem's assessment of the negative impacts of moving all standing charges to unit rates and decision not to move forward with this.

Alongside this work, we urge Ofgem and the government to redouble efforts to reduce overall energy system costs as far as possible. This is the most effective approach to reduce standing charges and importantly only creates winners, not losers. Ofgem should look to continue to drive efficiency through supplier operating cost allowances in the price cap, but this should be considered alongside addressing other costs in the system. Network costs are the largest component of standing charges, accounting for nearly 60% of the electricity nil consumption cap, and there is an accepted view that they will increase further as we transition to a net zero energy system. The implementation of zonal pricing, maximising the use of flexibility in the energy system and encouraging widespread innovation in smart technology (such as dynamic line rating) can reduce the need for new network investment, and drive down costs for all consumers.

In addition, we note that moving standing charges to unit rates will not address all affordability and debt challenges in the retail market, although Ofgem's analysis suggests more low income households will benefit than lose out. For low income, high usage customers, which represents 8% of our SVT customer base, the affordability challenge will be exacerbated by an increase in unit rates. We highlight the role of suppliers in supporting customers, through better billing performance and higher quality service, to keep on top of their energy bills and avoid the customer harm that comes from arrears. We welcome the recent announcement by Ofgem that it will look to drive up standards in these areas.

We strongly support Ofgem considering the affordability challenge for low income, high usage customers as part of this work to reduce standing charges. We urge Ofgem to work with the Government and use its influence to make progress on meaningful targeted bill support for those who are struggling to afford energy – the sharing of current data and, in the longer term, data matching between government and suppliers, could allow a form of bill support or better targeted voluntary support for those in need.

Considerations for shifting operating costs from standing charges to unit rates

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?

Overall, we are supportive of Ofgem reviewing the balance between standing charges and unit rates. We would like to highlight that under the current price cap structure, much of the allocation between standing charges and unit rates (i.e. the costs included in the nil consumption cap versus the benchmark consumption cap) is subjective and not necessarily rooted in concrete cost drivers, or is a result of regulatory decisions elsewhere in the industry (e.g. the structure of network charging). In our view, shifting £20–£100 in operating costs from standing charges to unit rates is acceptable, although we do not see how this range that Ofgem has proposed relates to particular categories of operating costs that could be considered consumption driven.

We are strongly of the view that the proposed range for supplier operating cost reallocation does not need any mitigation for suppliers to address the risk of under recovery of fixed costs and Ofgem does not need to consider the addition of any 'risk premium' to the price cap. This would add unnecessary costs to energy bills, including for vulnerable customers, at a time of historically high energy prices.

We have analysed the cost impacts on our customer base and present this in our response to Question 3. However, in determining a final value in this range, Ofgem must ensure that its decision is transparent with clear reasoning behind it.

On that note, we would also encourage Ofgem to use the data it is gathering through the supplier operating cost allowance review to look more closely at the cost drivers within the supplier operating cost allowances and form a better view of which supplier costs are fixed and which are driven by consumption. This could enable Ofgem to make a more informed and defensible decision about what is an appropriate £ figure to shift from the supplier operating cost allowances to unit rates. We also reinforce the points we have made to Ofgem previously, that it should focus on ensuring the operating cost allowances reflect recent reductions in the efficient cost to serve, which will minimise costs for all customers.

Ofgem could also go further than looking solely at operating costs allowances, and review other subjective cost allocations to the nil consumption cap, such as EBIT and headroom. For a dual-fuel customer paying by direct debit, this would represent a shift of a further £11 per year from standing charges to unit rates.

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 aspects we have not considered?

We largely agree with the trade-offs and impacts identified by Ofgem in the options paper. As a supplier, our primary focus is on the impacts of these proposals on customers.

Impact on customers

In theory, moving a portion of standing charges to unit rates will make it easier for consumers to understand their bills and result in greater consumer control over their energy bill. It should also sharpen incentives for energy efficiency and demand shift – in general, higher unit rates should encourage energy efficiency measures or moving to smart time-of-use tariffs where customers can reduce their costs by shifting demand to lower priced periods. However, this could also risk exacerbating negative behaviours such as energy rationing, where households use less energy than they need to lead healthy lives, which can be confused with energy efficiency.

Higher unit rates could also discourage adoption of electric vehicles (EVs) and heat pumps, potentially delaying the net zero transition. Although this can be mitigated to an extent through the use of smart tariffs, which can offer regular periods of cheap or free electricity, and the greater efficiency of air source heat pumps compared to gas boilers, this could exacerbate the existing issue of policy costs falling disproportionately on electricity bills which holds back electrification. As discussed in our response to Question 9, we urge Ofgem to continue to push the levy rebalancing agenda with Government.

Further, customers with second homes or empty properties with low or no usage, and households with solar panels and batteries who can reduce their energy consumption significantly (and who may be more affluent), will benefit from the proposed reallocation.

This could result in them avoiding paying their share of fixed costs, and mean there could be some regressive impacts of this policy.

Given Ofgem's concerns in previous consultations about the impact of changing standing charges on vulnerable customers,⁴ we have done some analysis of our customer base to try and understand the impact of Ofgem's proposals on these customers:

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Figure 1. Average bill impacts on Flexible Octopus customers, classed as vulnerable,⁵ of reallocation of standing charges to unit rates

In terms of context to this data:

- It is difficult to properly define 'vulnerable' customers and capture this properly using readily available data. For this analysis, we have used an illustrative definition of households in receipt of Warm Homes Discount (WHD) and/or on PPM; and/or in council tax band A.
- 'Winning' customers are those who see their annual energy bills decrease as a result of the supplier operating cost reallocation. 'Losing customers' see their annual energy bills increase.
- This analysis does not take into account behaviour change which could result from increasing unit rates – i.e. households could reduce their usage in order to reduce their energy bills in response to the changes.

The analysis that we have carried out suggests that amongst vulnerable customers who are on our standard variable tariff, 'Flexible Octopus', **☒% will be winners** (i.e. will see bill decreases) and **☒% will be losers**. However, the average bill increases seen by losing vulnerable customers will be **☒** than the savings for winning customers. This is demonstrated in Figure 1 – if £100 of opex is reallocated, our analysis suggests winning vulnerable customers could see on average annual bill savings of £☒, while losing vulnerable customers could see increases of £☒. **We estimate that vulnerable customers who lose out (including those who are not in the high usage categories) represent ☒% of**

⁴ For example, see Ofgem, [Follow-up on our review into the arrangements for recovering the costs of supplier failure](#), 18 August 2022.

⁵ Customers who are in receipt of WHD; and/or; have a PPM; and/or are in council tax band A.

our SVT customer base. Therefore, if this is extrapolated across the 27 million households on an SVT in Great Britain, there could be as many as 1.5 million vulnerable households whose bills will increase.

We expect that the customers who will be most severely affected by these proposals are those who are vulnerable and have high energy usage⁶, so we have carried out additional analysis to assess the impact on them.

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Figure 2. Average bill increases on vulnerable customers on Flexible Octopus with high energy usage across either fuel or both fuels.⁷

Figure 2 demonstrates the impact of reallocating standing charges for our vulnerable customers who **also** have high usage. At the top of the proposed range for supplier operating costs reallocation (£100), our analysis suggests that vulnerable customers who have high usage across at least one fuel will see an average bill increase of £1.50 per year. Our analysis suggests that 1.5% of our SVT customer base is vulnerable (using the classification we have adopted for this analysis) **with** high usage across either fuel and 1.5% of our vulnerable SVT customer base has high usage. These potential bill increases are concerning, particularly given these customers are vulnerable, may be struggling to pay their energy bills already, and may currently be rationing their energy use. To illustrate the worst case scenario, we have also included here the average bill impact on vulnerable customers who have high usage across **both** fuels – e.g. a household with high electricity needs for medical equipment which also has high gas consumption for heating their home. For these customers, which represent 1.5% of our SVT customer base (and 1.5% of our vulnerable customer base), the average bill increase could be as high as £1.50 per year.

We urge Ofgem to work with the government to consider if costs could be distributed to help vulnerable customers, which in the short term could be defined as those eligible for WHD, using a PPM and in low council tax bands, as a stepping stone towards better data matching with suppliers to identify those on benefits or with low incomes. We would also

⁶ We have defined high usage customers in line with the 'high' category from Ofgem's Typical Domestic Consumption Values (TDCV) for gas and electricity – 17,000kWh for gas and 4,100kWh for electricity. High usage in either fuel means households where gas **or** electricity usage exceeds high TDCVs, while high usage in both fuels means households where **both** gas and electricity usage exceeds high TDCVs.

⁷ As per footnote above.

support exploring whether these customers could be identified in a more formal way and prioritised for ECO/GBIS measures, which could help increase the energy efficiency of their properties. If we do nothing, these customers will be worse off as a result and could protest about the move.

Impacts on suppliers

For suppliers, moving fixed costs to unit rates will mean taking on risk of under recovery of fixed costs through unit rates. Suppliers will need to manage their cash effectively and may need more working capital as a result, although this is likely to be small in comparison to the existing risks that suppliers face, and need to provide for in working capital, each winter.

As Ofgem identifies, there will also be winners and losers amongst suppliers from these proposals, based on the consumption profiles of customers. Those with customers using more energy than is needed to recover the fixed costs will benefit, while those with customers using less will lose out. In theory, the move to allocate some fixed cost allowances to unit rates also increases the incentives on suppliers to sell more energy and attract higher volume customers. However, overall we do not think this impact will be significant as high volume users (especially those with electric vehicles and heat pumps) by and large should be on smart tariffs rather than SVTs.⁸ The incentive for suppliers to support customers with energy efficiency measures should also be maintained, as helping customers to afford their energy bills is cheaper for the supplier than engaging with the customer to recover payments or setting up debt repayment plans, although it should be noted that the majority of these energy efficiency measures are delivered via the statutory ECO scheme anyway.

We do not believe that Ofgem needs to implement any mitigation for suppliers for the proposed range for reallocation between standing charges and unit rates.

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?

The majority of suppliers price their default tariff standing charges according to the nil consumption cap. To facilitate the reduction in operating costs charged through the

⁸ As we have set out to Ofgem in our consultation responses on the future of price protection, we estimate that 8% of our customers with an EV choose to be on a EV-specific smart tariff rather than SVT.

standing charge, there would need to be a reduction in the nil consumption cap and a corresponding increase in the cap at benchmark consumption.

We would also like to encourage Ofgem to explore ways of making the recovery of fixed costs via unit rates under the price cap more progressive, to provide support for lower income and vulnerable households, though we acknowledge that this will make the price cap adjustment more complex.

We reiterate our strong belief 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, which in our view is small.

Increasing consumer choice through tariff diversification

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?

Generally, we would urge Ofgem against trying to create a competitive market for zero / low standing charge tariffs through mandation. Trying to spur innovation in a market through mandatory requirements is rarely successful – e.g. the Smart Export Guarantee has not led to a hugely competitive range of products. Instead, Ofgem should focus on getting the right incentives in place for suppliers to introduce tariffs that address the issues that low / no standing charge tariffs are trying to address.

There is very little incentive under the current market structures for a supplier to offer a low / no standing charge tariff due to there being little upside but a serious commercial risk of under recovering fixed costs. In practice, when suppliers have experimented with these types of tariffs, they have attracted a lot of empty or second homes and have lost money. The only way to address this is to increase the unit rates to the point that it becomes a highly niche product and not one that achieves the aim of helping customers to control their energy costs.

Further, while charging customers a zero standing charge and seeking to recover the fixed costs via above price cap unit rates may be permitted under licence condition SLC28AD, it is very onerous to provide evidence to Ofgem that we are still compliant with the price cap across all customers and all regions. This assurance, that would need to be repeated every

time the price cap changes and is highly impractical and essentially impossible at scale. Experience with obtaining Ofgem assurance for our non-standard evergreen tariffs has reinforced this point. We would also draw attention to the Ofgem review into the Utilita multi-tier tariff, uncovering overcharging errors that affected c.40,000 customers to the tune of c.£127,000. It cost Utilita a minimum of £500,000 in redress,⁹ as well as the cost to rectify and cost to their reputation.

Zero standing charge tariffs often take the form of multi-tier tariffs. However, these do not align with our principles regarding transparency and fairness. Not only is it complicated for customers to understand and control, it can make understanding potential energy costs more complicated, not less.

We constantly review our tariff offerings and seek to provide the best options on the market for our customers. We encourage Ofgem to consider ways to make it easier for suppliers to innovate – should they wish to – on regulated tariffs.

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?

Given the significant number of customers currently on an SVT (close to 27 million customers),¹⁰ we would not recommend any significant changes to the price cap which could reduce the degree of price protection.

We sympathise with Ofgem's intentions in looking to create flexibility in how costs are recovered between the unit rate and standing charge – as stated previously, we are supportive of Ofgem action on standing charges. However, the presence of standing charges is not inherently wrong, as long as they are not prohibitively high and are future proofed against the expected significant increase in fixed costs that will appear in the industry in the coming years. We would encourage Ofgem to focus instead on getting

⁹ [Decision](#) of the Gas and Electricity Markets Authority to close its investigation into Utilita's compliance with its obligations under Standard Licence Condition 28A (Prepayment Charge Restriction) of its gas and electricity supply licences

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<https://www.ofgem.gov.uk/press-release/customers-urged-shop-around-price-cap-rises-because-global-market>

standing charges down and considering how to support those with low incomes and high usage, which will be a difficult enough challenge as it is.

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

If there is to be greater diversity of low / no standing charge tariffs, which inevitably will be higher unit rate tariffs, it is vital that there is very clear communication that these are unlikely to be the best tariff – or potentially unsuitable – for higher usage customers. These types of tariffs may need to have very clear eligibility requirements, and suppliers should be required to inform the customer of the usage below which is a good deal for the customer, as well as monitoring consumption in order to make sure the customer is on the right deal.

There must be transparency in tariff offerings and customers need to fully understand what they are signing up for. It is important that customers signing up to these tariffs do not experience bill shock.

For example, we have protections in place for our customers looking to sign up to our smart tariffs, to check their eligibility and gain assurance that they are appropriate for the customer. Crucially, it must also be easy to quickly switch away from this type of tariff, e.g. without exit fees.

As identified by Ofgem, tariffs with low / no standing charges and higher unit rates are likely to negatively impact low income households with inflexible, high demand. Our analysis suggests that this group represents 15% of our SVT customer base.

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

We recognise the specific challenges that standing charges pose to PPM customers. In particular, prepay gas customers who have not used their heating over the summer still accumulate standing charges that either need to be paid for during the summer or cleared when they top up to turn their heating on in winter.

In the first instance, we urge Ofgem to use all of the levers at its disposal to rapidly transition away from traditional PPMs (e.g. by announcing an end date for traditional prepay

infrastructure) and accelerate the smart PPM rollout. Octopus does not install traditional PPMs and actively works to remove them instead. Suppliers have a much clearer understanding of their customer if they have a smart PPM and they can do more proactively to support customers – for example, providing them with credit remotely. Any intervention on smooth standing charge payments for PPM customers – for example higher charges over the winter but no accumulation of debt over the summer, or paying higher charges over the summer and only unit rates in winter – will also require smart PPM functionality. Therefore, Ofgem should look to accelerate the smart PPM rollout and announce an end date to legacy PPM infrastructure as soon as possible.

We agree with some of the issues raised for the different suggestions for smoothing standing charges for PPM customers. Increasing standing charges in the summer months would increase the debt that gas customers need to clear before turning their heating on in the winter. Meanwhile, allowing standing charge debt built up over the summer months to be paid off on a longer timescale does not remove that debt for the customer which still needs to be paid, and this could simply add to the debt and arrears already present in the energy market, which is at record levels.

In reality, the different options will work for some and not for others – i.e. there will be some customers who are happy to make regular payments over the summer to reduce their energy bills in the winter but for others this won't work. Overall, this could be an area where diversity of choice might be beneficial for customers, depending on what arrangements would work for them, and we believe there could be merit in exploring these solutions further to help these customers avoid falling into debt and arrears.

We would also recommend that Ofgem and the government focus on levers which can directly tackle debt and affordability more directly for PPM customers.

Network and policy cost allocation

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

Network costs

Network charges make up the majority of electricity standing charges – 57% of the nil consumption cap. This is compared to 33% for core operating cost allowances. Therefore, to bring down standing charges more meaningfully, we must look at reforming network charging.

It is welcome that Ofgem is reviewing cost recovery options for network charges and we commend Ofgem for doing this. At the time of the TCR decision, we advocated for cost recovery of network charges to reflect use of the system and not be flat across customers. The more of the bill that is flat, the less we can reward customers for smart usage of the system. Looking ahead, we would like to reemphasise strongly our position that network cost recovery should reflect use of the system and reward behaviour which reduces load on the network (thereby reducing the need for load related expenditure on the network which then further drives up costs for customers).

We welcome Ofgem looking again at the outcomes of the TCR and it is vital that this review carefully considers the holistic implications across all customer groups. Recognising the current impacts that network charges are having on bills, particularly for those on lower incomes, we urge Ofgem to conduct this review of network cost recovery at pace, with binding deadlines in place for decisions, and to dedicate sufficient resources to this programme of work. We also think there could be merit in reallocating a proportion of network costs from standing charges to unit rates in the short-term, as is being done for supplier operating costs, while the review is being carried out.

It is imperative that Ofgem finds a future-proof way of recovering fixed network costs which is socially acceptable and less regressive than the current approach. We note that Ofgem is in the early stages of exploring the potential to recover the fixed element of DUOS charges according to council tax bands and we support Ofgem investigating these types of ideas. In general, we believe it would be better to amend the structure of network charges and other regulated supplier input costs and let this flow through to customers, resulting in lower standing charges, than to ‘force-fit’ the recovery of fixed costs through unit rates in the design of the default tariff price cap.

It is generally an accepted view that as the energy system decarbonises, network costs will continue to increase, with increased infrastructure buildout. While we accept this in principle, Ofgem must explore all possible levers available to contain this increase in practice. The highest impact levers Ofgem should pursue are:

- Designing an implicit market signal for flexibility that will allow the market to scale, maximise provision of flexibility at all voltage levels and eliminate perverse incentives placed on flexibility providers today which can exacerbate local network constraints.
- Ensure network incentives and investment planning processes maximise deployment of grid-tech solutions like dynamic line rating, smart conductors and smart network monitoring/management. These solutions are proven to enhance network capacity at a lower cost than reinforcement capex.
- Supporting reform of the wholesale market so that marginal costs reflect local network constraints, thereby ensuring generation/flexible capacity operates in the most efficient way that maximises utilisation of existing network assets
- Increasing competition in delivery, funding and ownership of network assets, so that returns and costs can be revealed by the market and driven down by competitive forces over time

These interventions will help minimise network costs faced by customers across the system. These costs are the critical input into user charges and bold action to reduce them must be pursued in tandem to methodological reforms to the recovery calculations.

Policy costs

We are strongly supportive of rebalancing policy costs away from electricity and on to gas. Earlier this year, we launched Electrify Britain with EDF Energy, dedicated to significantly reducing energy bills and reducing emissions through widespread electrification. A key priority for achieving this is to create the right incentives on customers to invest in electric heat and transport through reallocation of policy costs – which currently make up around 17% of electricity bills compared to 6% on gas bills. This could include moving some policy cost onto general taxation, which is a much more progressive way of paying for schemes like ECO and WHD, moving some onto gas and ensuring targeted bill support for vulnerable customers unable to electrify.

We are concerned about the growth in policy costs on energy bills over recent years – which is currently standing at £5 billion a year – and this appears to be a trend that will continue as new low carbon technologies are set to be funded through bills. We urge Ofgem to use its influence with the government to accelerate rebalancing of policy costs across electricity and gas bills and where feasible, onto taxation. Low income customers should also be exempt, or at the very least, have reduced exposure to policy costs.

We are exploring other potential routes of levying policy costs more fairly, if the government is unable to pay for any of the costs. We are currently working on a proposal that would involve recovery of policy costs equally across electricity and gas on a per unit of energy basis, and we are exploring this with policymakers.
