

19/09/2024

Dear Dan,

## Good Energy's response to Standing Charges: domestic retail options

Thank you for the invitation to respond to this options paper on standing charges. Good Energy is a supplier of 100% renewable power to homes and businesses across the UK, an innovator in energy services, and an installer of heat pumps. We are working towards a cleaner, greener future by making it simple to generate, share, store, use and travel by clean power. Our ambition is to support one million homes and businesses to cut carbon from their energy and transport used by 2025.

### Summary

- **Good Energy recognises the strong feedback from consumers for lower standing charges on bills, which are higher than they have ever been largely due to decisions made about network costs.**
- **There are opportunities to reduce standing charges, but we do not support the proposed near-term options as set out in this consultation.**
- **We are concerned about the distributional analysis that reveals more households would be worse off under a scenario of higher unit rates, including 2.3-2.4 million low-income households.**
- **Moving fixed costs to unit rates and/or mandating suppliers offer low or no standing charges, poses financial resilience risks to the sector.**
- **Good Energy supports the introduction of a form of targeted, means-tested price protection for consumers as a solution to affordability challenges in the energy sector.**
- **Higher unit rates pose increased barriers and challenges for the uptake of low-carbon technologies such as heat pumps and EVs.**
- **Good Energy supports Ofgem's intention to undertake longer term reviews of network and policy cost allocation, in particular a review of the Targeted Charging Review (TCR) decisions.**

## Opening reflections

Good Energy appreciates the challenging external and political environment that surrounds the discussion on standing charges. However, we are concerned how this consultation process has culminated in the presentation of two short-term interventions which could see a large number of household bills increase, whilst at the same time posing financial resilience risks for suppliers.

Our response will set out why we do not believe options to move supplier operating costs to the unit rate or options to increase tariff diversity are appropriate. The challenge industry is facing in the form of higher standing charges is at its core, an affordability challenge.

The answer therefore must be the implementation of a form of targeted, means-tested price protection for consumers. That is why Good Energy is calling for the implementation of such a measure, which we recognise needs to be led by HM Government but can be championed louder by Ofgem.

Increasing the unit rates for millions of households not only means a greater share of all households, including potentially a significant number of vulnerable households, are likely to see a bill increase from this change, but it also creates wider system implications – not least making the switch to low-carbon technologies such as heat pumps more unattractive.

Good Energy strongly supports Ofgem's intention to undertake longer-term reviews, specifically of the Targeted Charging Review (TCR) decisions. A thorough and robust review of the TCR decisions is key to providing effective solutions to some of the distributional challenges seen in the sector at present.

## The near-term options

In this section, we discuss both near term options. In summary, we do not believe either option provides an effective, enduring solution to the affordability challenge.

### ***Option 1 – Moving supplier operating costs from the standing charge to the unit rate***

Good Energy does not support the option to move some supplier operating costs from the standing charge to the unit rate. Firstly, it is difficult to provide a full assessment of this option given the separate review of supplier operating costs has not yet concluded.

It is particularly important that this work is completed first, as there are some fundamental assumptions that require clarifying before any changes are made to the price cap methodology. One of those is clarity around which operating costs are 'fixed'. Ofgem refers to supplier operating costs broadly covering billing, metering and company premises, as well as also referring to these costs as being within suppliers' control. Yet, these costs for suppliers are 'fixed' costs and for the purposes of this analysis, need to be considered as such.



Notwithstanding practical, operational challenges for suppliers when making such a significant change in a relatively short period of time, one of the most concerning aspects of this proposal is distributional impact on both low-income households, and all households. We note that Ofgem analysis reveals that up to 2.3-2.4 million low-income households could receive a bill increase from these changes, while the bill decreases delivered at the same time are modest. Greater thought must be given to the negative impacts on such a large group of vulnerable households, especially in winter months when electricity and gas consumption is typically higher.

Ofgem's analysis also suggests that in total, more households will see their bills increase rather than decrease because of these changes; between 14.8-15.5m could be impacted by a bill increase of between £4-21. This would not be a positive outcome for consumers, especially at a time when we still emerging from the energy affordability crisis whilst also seeking to strengthen consumer trust and participation on the journey to a net zero future. We also do not believe that consumers are fully cognisant of these potential implications, which poses communication challenges for Ofgem and the industry, if this option is taken forward.

Returning to our central point around the affordability challenge, in our assessment this near-term option is not suitable nor provides enough consumer benefit to warrant its introduction. We note that Ofgem considers more low-income households will be better off from this change, yet we question the meaningful impact a £4-19 annual bill reduction will make, whilst at the same time this action potentially increasing bills for over two million low-income households. Targeted protection for vulnerable and low-income consumers would be a significantly more effective way to address the affordability issues inherent in the energy market.

Finally, we do understand and appreciate the challenging external environment that surrounds these discussions. Yet, it is disappointing that the previous concerns raised by suppliers, such as the cost recovery implications from moving fixed costs to volumetric charging, are not being given due consideration in the development of these near-term measures.

### ***Option 2 – Increasing consumer choice through tariff diversification***

The gas crisis has had a lasting effect on the domestic energy retail market, not least in the congregation of many domestic households on default tariffs, subject to the price cap.

We are sympathetic to consumer responses seeking to make an active choice on what level of standing charge they pay, but as the consultation paper in fact sets out, there are a number of reasons why mandating suppliers to offer low or no standing charge tariffs is problematic.

We note that Ofgem welcomes and encourages suppliers to make more tariffs available with a range of standing charges. However, it is not that straightforward. Indeed, on page 5 of the consultation paper, there is a statement that reflects the challenge, 'we cannot make fixed system costs go away, but we can allocate them differently to give customer more choice in how they pay these costs.'



The same is true for suppliers' fixed tariffs. We are subject to increasing industry costs, whether that be for paying for upgrade of our transmission infrastructure, metering costs or other social and environmental obligations.

Some suppliers may choose to offer low- or no- standing charge tariffs for customers. In our experience, however, this presents gaming risks. For example, if suppliers were required to offer these products with no control over eligibility requirements landlords with large numbers of vacant properties with low to no consumption can avoid fixed costs entirely which would then need to be subsidised by other consumers.

Regulatory interventions to mandate suppliers to offer low or no standing charges poses serious financial resilience risks to the sector. Any changes made downstream should be reflected upstream – i.e. distribution network charging methodologies.

Turning to discussion of a potential move away from the existing price cap structure as one route to increase tariff diversity in SVTs, we would urge Ofgem to separate these discussions from the standing charges workstream. It is more appropriate for this to be addressed in the separate future price protection workstream, which is already underway and requires more extensive consultation with industry.<sup>1</sup>

Finally, we urge Ofgem to give further consideration to the wider implications and trade-offs under this option. The consultation document has rightly identified challenges in the form of higher unit rates becoming unattractive for most consumers. This is just one key consideration. However, for other consumers who may be inclined to a tariff with higher unit rates and a lower standing charge, they may see increased bills overall, which then may also exacerbate an already worrying trend of increasing debt levels in the domestic retail energy market.

Reflecting on some of the considerations shared in the consultation paper, we think it is right that Ofgem engages further with the sector, crucially with a broad range of stakeholders, before making any changes to mandate supplier offerings. Failure to do so could have major consequences for the financial resilience of the sector.

### ***Smoothing spend for pre-payment customers***

Similar to the two options discussed above, we do not believe the options to set standing charges higher in the summer versus winter or allow standing charge debt or arrears to be paid off over a longer period are suitable interventions.

Firstly, from a purely practical perspective, our billing systems would require additional time and resource to make changes such as separating out standing charge debt or arrears on customer accounts. This is not possible to achieve by April 2025.

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<sup>1</sup> <https://www.ofgem.gov.uk/call-for-input/future-price-protection-discussion-paper>



We understand the exploration of further assistance for this particular group of customers. However, in our view, we should first allow sufficient time to analyse the impact of the standing charge levelisation - which only came into force back at the start of April earlier this year - before further interventions are made.

We should allow at least a year to assess the impact of the change before rushing to implement further regulatory changes. These proposals also require a full consultation process, so all stakeholders are able to assess the full impact on the market.

Last years' Winter Voluntary Debt Commitment demonstrated that suppliers are already going above and beyond to deliver support to customers, which includes measures such as extended repayment plans and offering financial assistance.

### **Targeted, means-tested price protection as the route forward**

**Good Energy is calling for the government to introduce a form of targeted, means tested price protection for the most vulnerable households.** This could be in the form of a 'social tariff' or 'social payment'. Our position remains unchanged from our response to the earlier call for input.

The near-term options proposed as part of this consultation do not provide the necessary support that is required to meet the policy challenge. In fact, it risks seeing more households having higher energy bills, which is concerning.

We understand that this work is incumbent on HM Government taking the initiative to implement such a measure. Yet, Ofgem, with the support of other industry voices, can continue to make stronger representations to the Government in support of such a measure.

Clearly, this presents a political, as well as a practical challenge for any government to implement. Beyond the headlines, the recent decision by the new Government to amend the Winter Fuel Payment to a means-tested basis, shows that there is an appetite for means-testing support payments.

Critically, the introduction of targeted support has the backing of suppliers, consumer groups and indeed Ofgem. And there is recent, favourable evidence, as seen during the energy crisis, where suppliers have demonstrated that they can deliver financial support schemes on a targeted, or non-targeted basis.

### **Implications for low-carbon technologies and net zero**

Good Energy remains concerned about the potential negative implications for incentivising the uptake of key low-carbon technologies (LCTs) such as heat pumps and EVs. Electricity prices in the UK are already some of the highest in Europe, which is proving a central barrier to many households and businesses who are considering making a switch to these key technologies.

Increasing unit rates further, as is proposed in the consultation, would be detrimental to the sector. Whilst clearly providing further disincentives to consumers and businesses to make the switch to these technologies, it is also important to remember how interventions like this, could have long-lasting repercussions for the UK in meeting our legally binding carbon reduction targets.

As Ofgem will be aware, social and environmental levies currently sit disproportionately on electricity bills versus gas.<sup>2</sup> Previous governments have repeatedly signalled their intention to consult on options to address the imbalance, yet this has failed to materialise.<sup>3</sup> It would be a mistake to continue to compound this imbalance, which is only likely to put more consumers off and thereby slowing down the UK's renewables transition.

Indeed, it is not just consumers who are considering switching to these technologies who are likely to be impacted, this also directly impacts adopters of heat pumps and EVs now, who may feel that they have mislaid about the prices to run these low-carbon products.

If a decision is taken to increase unit rates, it is essential that there is progress in creating more opportunities for consumers and business to benefit from flexing their demand. We are concerned about the current commercial viability of the Demand Flexibility Scheme (DFS) for this forthcoming year for example, which is likely to see reduced overall participation. Consumers and industry require improved commercial incentives to be able to be maximise the benefits of being flexible with low-carbon technologies.

## **Longer term reforms – network and policy cost allocation**

Good Energy is supportive of Ofgem's plans to conduct a review of how network charges and broader systems costs are allocated.

We have long called for a review of the decisions taken in 2019 as part of the Targeted Charging Review (TCR), which has seen negative impacts for consumers with the recovery of a larger proportion of network charges to a fixed-per-meter basis. Unlike operational costs, reallocation of network costs between the standing charge and unit rate would have the benefit of consistency between costs faced by suppliers, and the way those costs are charged through to customers.

We appreciate that this workstream is highly complex, with multiple trade offs to consider. Yet, it is vitally important that a review is conducted swiftly, so as an industry we can assess if there is a fairer and more appropriate form of cost recovery. The importance of this is further strengthened, particularly with the reference in the consultation paper that TNUoS costs are likely to keep rising further in the next few years.

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<sup>2</sup> <https://www.e3g.org/wp-content/uploads/E3G-Briefing-Make-clean-heat-accessible-to-all-UK-households.pdf>, pp. 1

<sup>3</sup> <https://assets.publishing.service.gov.uk/media/642468ff2fa8480013ec0f39/powering-up-britain-joint-overview.pdf>, pp. 26



We also support the view in the consultation paper that “government should consider how future policy costs are allocated, to ensure that the burden on bills, and especially standing charges remains low”. This has close interlinkages with the Government’s work to review the rebalancing of social and environmental levies on bills, but we also believe that there is a case for Government to explore moving some specific costs – Warm Home Discount as one example, into general taxation.

I hope you have found our response helpful. If you would like more information, or have any questions about our views, please do not hesitate to let me know.

Kind regards,

**Simon Shaw**  
Regulatory Affairs Lead

[Simon.shaw@goodenergy.co.uk](mailto:Simon.shaw@goodenergy.co.uk)