

20 September 2024

## **Standing charges: domestic retail options- UW response**

Retail Pricing Strategy, Ofgem  
[StandingCharges@ofgem.gov.uk](mailto:StandingCharges@ofgem.gov.uk)

---

Utility Warehouse was one of the first 'challenger' brands when it entered the retail energy market over 20 years ago, and we have a unique perspective in that we operate across numerous regulated markets: energy, telecoms and insurance. Today we serve over 1 million households.

### **UW overarching views**

#### Under the circumstances, we support Ofgem's proposal to deviate from cost-reflectivity in standing charges

- While our overarching view is that energy prices should be cost-reflective, we fully appreciate the social imperative to consider intervention and a deviation from cost-reflectivity in the case of standing charge reform.
- From a political and consumer perspective, there is a clear need to do something now and as Ofgem states in its document, it is also important to ensure we take measures as an industry to retain and rebuild consumer trust where it is fading, particularly as we approach the transition to MHHS, the success of which will rely on consumer engagement.
- Given the above we, therefore support a deviation from cost-reflectivity to move a portion of operating costs into the unit rate.

#### Ofgem's chosen methodology must take into account some important considerations

- It will be essential that the correct industry residential average mean usage is used for the conversion from standing charge to unit rate in order for the industry as a whole to neither under recover or over recover. We have expanded on this in our response to Q1. It will also be essential for this calculation to be re-baselined each year, for example to account for anticipated falling consumption levels and thus to avoid under-recovery across the market.
- In respect of links to the price cap, it is crucial Ofgem adopts an approach through its Operating Cost Review, that allows for sufficient investment. From our own experience at providing a market-leading level of customer service, we believe that the operating cost allowance needs to be set approximately £10-25 above the October price cap level in order to enable the investment necessary to achieve Ofgem's very legitimate customer service aspirations, as set out recently following the Vulnerability Summit.
- We agree with Ofgem that this reform does not warrant a reconciliation mechanism. We would caution that if Ofgem is minded to introduce one, Ofgem must include a dedicated uplift in the price cap to recover the administration costs of the mechanism.
- Ofgem may want to consider moving the operating costs allowance onto the electricity bill and off of gas to mitigate the risk of weather fluctuations. For example a warm winter could lead to an under-recovery of fixed costs, hampering supplier stability; whereas a cold winter could over-expose consumers to fixed costs.

#### Tariff diversity

- In Ofgem's Future Price Protection workstream, one of the main proposals is for a Static Time-of-Use (TOU) price capped tariff. This would create multiple price capped levels (e.g. peak, off-peak, super

off-peak) for standing charges and for unit rates. As such, this workstream will already obligate suppliers to develop compliant tariffs. We therefore recommend that Ofgem considers intervention on tariff diversity as part of - or after - the work to develop a price capped Static TOU default tariff.

## Consultation questions

<b>Q1</b>	<b>Do you have any views on our case for change?</b>
	<p><u>Concerns and proposals around proposed methodology</u></p> <p>Understanding Ofgem's logic and proposed methodology is crucial to our ability to participate constructively in the consultation process. We have sought clarification from Ofgem on the points below, but appreciate that at this time Ofgem is unable to detail certain aspects of its expected approach. As such we cannot accurately assess the impact and risks associated with Ofgem's proposals but have made some suggestions below based on our understanding of logic and objectives. In any case, we would welcome clarification on Ofgem's thinking as soon as possible.</p> <p><b>The values used to illustrate the impact of moving standing charges seem to vary</b></p> <ul style="list-style-type: none"> <li>On page 24, footnote 14, Ofgem says for the purpose of analysis it has used 'average consumption' in line with the 'benchmark consumption' in the price cap ie. 3,100 kWh for electricity, and 12,000 kWh for gas. Thus, Ofgem is not using TDCV here.</li> <li>Given new TDCV values are lower than the benchmark consumptions used in Ofgem's calculations, we would like to understand how Ofgem is ensuring that the analysis is allowing for this? presumably the impact will be different in reality?</li> <li>Additionally, on page 58, in Table A10, the values used for a low, medium and high consumption level for a hypothetical supplier (A, B and C, respectively), seem to be based on a different logic again. Supplier B seems to be based on industry demand data, but Supplier A and C are assumed/extrapolated from a range of actual values. Could Ofgem provide clarity on why different approaches are being applied to supplier A, B and C?</li> </ul> <p><b>Suggestion to avoid an over or under recovery from suppliers on average</b></p> <ul style="list-style-type: none"> <li>We understand that Ofgem wants to avoid an over- or under-recovery from suppliers on average, which we propose is achieved by taking the mean residential consumption.</li> <li>We understand however that the "benchmark" consumption (i.e. 12,000 kWh for gas and 3,100 kWh for electricity) which is used in the Ofgem price cap model calculations is based on 2017 benchmarking (for instance this is referenced in paragraph 3.6 of the call for input).</li> <li>Since then, following various efficiency measures, we understand that mean consumption has fallen, which is consistent with the gas 10,880 kWh and electricity 3,003 kWh averages which Ofgem has used in the example of Supplier B (which Ofgem explains is based on recent industry data and this is mentioned also as "industry mean demand" in paragraphs A2.37 &amp; A2.38 p 58 of the document).</li> <li>We suggest that industry mean demand as quantified in the Supplier B example should be used for the standing charge to unit rate conversion. This would mitigate against the risk of under or over recovery on average.</li> </ul>
<b>Q2</b>	<b>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?</b>
	We should be moving as much as reasonably possible from the standing charge into the unit rate to ensure the maximum possible reduction in standing charges and maximum benefit to the customer.
<b>Q3</b>	<b>What are your views on the trade-offs and impacts we have identified for consumers and suppliers?</b>

	<b>Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?</b>
	-
<b>Q4</b>	<b>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?</b>
	<p>In respect of links to the price cap, it is crucial that Ofgem adopts an approach through its Operating Cost Review that allows for sufficient investment. From our own experience at providing a market-leading level of customer service, we believe that the operating cost allowance needs to be set approximately £10-25 above the October price cap level in order to enable the investment necessary to achieve Ofgem's very legitimate customer service aspirations, as set out recently following the Vulnerability Summit.</p> <p>We agree with Ofgem that this reform does not warrant a reconciliation mechanism. We would caution that if Ofgem is minded to introduce one, Ofgem must include a dedicated uplift in the price cap to recover the administration costs of the mechanism.</p>
<b>Q5</b>	<b>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?</b>
	<p>Additionally, Ofgem is already exploring multiple options on how the cap can evolve and facilitate changes such as MHHS and Time of Use. Ofgem's consultation on Future of Price Protection has already explored multiple options such as a static TOU price cap tariff and dynamic TOU cap, which will introduce various versions of capped standing charges and unit rates and therefore increase tariff diversity and competition.</p>
<b>Q6</b>	<b>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?</b>
	-
<b>Q7</b>	<b>In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?</b>
	-
<b>Q8</b>	<b>What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?</b>
	-
<b>Q9</b>	<b>Do you have any views on our considerations for the allocation of network and policy costs?</b>
	<p>We support a review of how these costs are allocated and therefore charged to suppliers and therefore allow suppliers to recover their costs with minimum risk to market stability and sustainability.</p>