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Dear Dan

STANDING CHARGES: DOMESTIC RETAIL OPTIONS

We welcome the opportunity to respond to your call for input on standing charges. Our responses to the stakeholder questions are in Annex 1 to this letter, however we would like to highlight the following points:

Shifting more opex recovery from standing charge to unit rates under the price cap

Ofgem's initial assessment indicates that changing the price cap methodology to move £20-£100 of opex from standing charges to unit rates may be justified on the grounds of marginal utility. We agree this may well be in overall consumer interests, however, there are complex trade-offs and this requires careful assessment. In particular:

- Ofgem's analysis of the differential impact on suppliers is important. It indicates that, to minimise competitive distortions, the lower end of the £20-£100 range may be best. This also points toward using different average consumptions for DD, SC and PPM when converting from standing charge to unit rate allowances. Average SVT consumption varies widely by payment method and this would mitigate the risk of competitive distortions between suppliers with different payment method mixes.
- The methodology for setting allowances should be future proofed against changes in SVT average consumption over time. For example, there is a strong possibility of a reduction in SVT average consumption as a result of suppliers competing to attract high consuming SVT customers onto more cost-reflective fixed term contracts. We suggest the price cap methodology should make the unit rate allowance explicitly dependent on average consumption, with average consumption updated each quarter on a rolling 12 month basis.

Increasing consumer choice through tariff diversification

A difficult balance needs to be struck between consumer desire for choice versus protection for consumers on default tariffs. Competition between suppliers is the best way to discover how much consumers value no or low standing charges. If significant numbers of consumers really value low standing charges (notwithstanding the higher unit rates), suppliers will respond to this demand. Regulatory intervention in the fixed term contract (FTC) market brings potential for unintended consequences, especially additional costs for consumers.

We are also not persuaded of the case for intervening to increase the diversity of SVTs. If consumers feel strongly about being able to choose a lower standing charge, this should be a good prompt for them to engage with the FTC market. It is important to promote consumer choice, but this should not be confused with consumer protection which is the purpose of the SVT price cap.

Network and policy cost allocation

We welcome Ofgem's initiation of a broader and more holistic review of how system costs are recovered, with a view to presenting options for reform next year. We note that Ofgem is working with government on whether some policy costs would be better recovered through taxation, and if applied to bills, what the right balance is between electricity and gas.

Mitigating negative impacts on low income high consumption consumers

Even if the marginal utility assessment shows an aggregate welfare benefit from reducing standing charges, low income, high consumption households may be left significantly worse off. We are pleased that Ofgem is working with the government to mitigate impacts on such households, which will be crucial to delivering effective reform to standing charges.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

**STANDING CHARGES: DOMESTIC RETAIL OPTIONS
- SCOTTISHPOWER RESPONSE**

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

We support Ofgem's work to explore options that could benefit consumers, particularly those on low incomes and prepayment meters. However, it is important that a balanced approach is taken that maintains the financial stability of the retail market and does not transfer a disproportionate share of the costs to low income households with high consumption levels.

Context of growing need for demand side response

The energy sector is transforming due to a combination of technological advances, policy initiatives and changes in consumer behaviour. Demand side response (DSR) is a nascent market which Ofgem considers to be one of the most cost-effective sources of flexibility in the electricity system.¹ Realising that flexibility in turn depends on consumers' engagement and their willingness to make investments in EVs and low carbon heating technologies.

The structure of energy tariffs must adapt accordingly to allow industry to recover the efficiently incurred cost of serving consumers while incentivising the adoption of low carbon technologies and efficient system use. This is key context for the case for change to standing charges.

The convergence of digitalisation, decentralisation, and decarbonisation mean DSR is increasingly valuable, increasing the importance of cost reflectivity in tariff design to drive efficient response. Efficient price signals from each element of the bill will facilitate stacking of value propositions for consumers, and drive efficient use of the system. In an energy system undergoing transformation, we are working to give consumers more control over their energy bills in ways that reduce underlying system costs. This is fundamental to creation of a decarbonised energy system at the lowest cost to consumers. DSR is likely to play a key role in delivering the Government's mission to provide Britain with cheaper and clean power by 2030 and this should be considered in the case for change to standing charges.

We agree with Ofgem's view that "a simple change to the price cap formula at the current time without other, more fundamental changes to the market would not bring net benefits (para 2.23). Accordingly, we are pleased that Ofgem has decided on a fundamental review of cost allocation and to explore a broader range of options for the longer term, linked to work with government on holistic solutions to energy affordability and debt.

Comms challenges

It is unclear if many of the respondents who asked for standing charges to be abolished understood the implications of changes in tariff structure. It is important that we have a just transition to net zero that doesn't leave households who are not in a position to invest in solar or efficiency measures bearing a disproportionate share of the costs.

The response to Ofgem's CFI showed that many consumers find standing charges confusing and do not agree that they are needed. This is partly a result of a highly effective media campaign. The level of focus that has resulted risks being a distraction from more effective ways to help households such as targeted support for vulnerable consumers and other

¹ Slides presented at Ofgem Workshop on engaging domestic consumers in energy flexibility, held on 6 December.

measures to address the extraordinary increase in debt levels. In the context of a cost of living crisis and past periods of wage stagnation, more people are struggling to cover their essential bills. The increase in electricity bills is relevant here and, while the structure is undoubtedly important, effective targeted support is key to help those who cannot afford to pay. We agree with Citizen's Advice that this is not the most effective way to support customers.²

There is a need for Ofgem to take the lead in helping consumers understand why standing charges have increased and why different allocation decisions have been made. It is not surprising that the current structure of pricing is perceived to be unfair and that the rationale is not well understood when Ofgem has not set out the rationale for the decisions that it has made, which have changed this structure, in particular with regard to moving the recovery of electricity network charges from unit rates to the fixed charge. Part of being an effective consumer champion is helping consumers understand where their overall best interests are. When consumers are being treated fairly, it is important to help them understand this and encourage effective engagement which will help the transition to the energy system of the future.

Consumers would like to pay less for their electricity and it is not clear that their responses on tariff diversity were well informed and factored in the cost of the extra risk held by suppliers. There are serious regulatory barriers to increased tariff diversity in competitive offers, as set out in our response to Question 6.

Context of broader affordability and debt challenges

Affordability and debt challenges will be more effectively targeted through Ofgem's focused work and through consideration of regional impacts. We appreciate that Ofgem is continuing work to find tailored financial solutions to debt issues and that affordability is a broader challenge that government is also working to address. It is important that efforts to address affordability and debt through standing charge reform do not preclude more effectively targeted approaches. These are efforts urgent as energy bills are still substantially higher than before the crisis, and suppliers are managing record levels of energy debt.

The case for change chapter outlines the broader affordability and debt challenges in the domestic retail market (paragraphs 2.33 -2.41), without noting the restriction on the installation of involuntary PPM. The increasing bad debt is a significant component of the operating costs which are being considered for allocation through the standing charge and unit rate.

However Ofgem claims that the significant increase in arrears raises questions around how effective suppliers are at proactively engaging consumers in payment difficulty and what the barriers to accessing support are. We addressed these questions in our response to Ofgem's consultation on Affordability and Debt in the Domestic Retail Market, which was submitted earlier this summer. We look forward to Ofgem's next publications on debt this autumn.

Some of the feedback Ofgem outlines (paragraphs 2.9 – 2.14) will be related to this reduced affordability due to the cost of living crisis and stagnant wages, as well as to the structure of their electricity bill. Changing how fixed costs are recovered to address these issues is a poorly targeted measure. It will tend to exacerbate issues for some of the respondents, for example the NHS nurse who avoided using their heating for a year may be less able to heat their home when facing a higher unit rate.

While Ofgem has used consumer archetypes and income-weighted analysis to understand the distributional effects of policy changes, it is not clear if this analysis has been carried out on a regional basis. If Ofgem carries out this analysis it may well show justification for

² [Citizens Advice response to Ofgem's Call for Input on standing charges - Citizens Advice](#)

levelisation of regional network charges. The differences in regional network charges are not delivering clear system benefits but are delivering negative outcomes for some consumers, so a policy decision could be taken to levelise these regional differences while maintaining useful price signals.

Changing the notional level of standing charges in the price cap

We broadly agree with Ofgem's use of marginal utility analysis to inform decisions on shifting costs from standing charges to unit rates. However, we would caution that the analysis of changes to Opex may produce different results depending on the level of the fixed network costs to be passed through, which can vary year on year as well as across the regions.

Ofgem expects that "a net customer benefit can be derived from moving £20-£100 from standing charges to unit rates, relative to the current allocation". Stakeholders' views are welcomed as to whether this should go further, and what mitigations should be considered to address issues identified (para 2.27). Ofgem's draft impact assessment indicates this may be a progressive change, estimating that more low-income households would financially benefit, than would lose out.

However, in paragraph 2.26 of the case for change Ofgem states that it *can mitigate the risk of stability impacts and cost increases by focussing on costs that suppliers are able to control and considering a reduced range for cost transfer. Therefore, we are exploring whether our approach to setting the notional level of the standing charge in the price cap should be reformed to separate more clearly unavoidable pass-through costs (such as network costs) from costs that are within suppliers' control (such as aspects of operating costs)*. This argument does not make sense with regard to stability impacts - suppliers are simply not able to transform their operating costs from a fixed per customer rate to one that varies with usage. By contrast, the structure of network costs *is* within Ofgem's control. Ofgem can choose to reverse its decision to recover more of these costs through a fixed charge rather than a unit rate. This would be the only clear way to substantially reduce the standing charge while mitigating the risks of stability impacts and cost increases.

Although the cost to serve varies across suppliers, this is largely related to the nature of the different suppliers' customer bases. This cost to serve is generally not within suppliers' control other than through our acquisition strategies.

Increasing Tariff Diversity

Consumers who responded to Ofgem have made it clear that they want to make an active choice on what level of standing charge they pay. However low standing charge tariffs have historically had low take up. As Ofgem's impact assessment shows, some consumers could benefit greatly from low or no standing charge tariffs as it would mean them paying a lower share of the fixed costs of the system. The costs would be recovered from other consumers who may be less well placed to engage with a regulatory call for input. Some of the options under consideration may prove unpopular with consumers, for example, requiring customers to actively switch tariff to protect those who are disengaged from being on an inappropriate tariff (para 4.26).

Ofgem outlines how the diversity of standing charges observed across customers on variable tariffs, and to a slightly lesser extent fixed contracts, has declined drastically since the introduction of the default tariff cap (para 4.5). It is worth considering that this timing will also have been affected by implementation of the targeted charging review during the same period, which effectively reduced the scope for financially responsible suppliers to offer tariffs with a diversity of standing charges.

Electricity network costs

While, on balance, Ofgem consider that there is merit in revisiting how fixed network costs are shared across market participants, this has been relegated to the longer term reform category and it is not clear why it is not being given greater priority (see our response to Question 9).

Impact assessment

In paragraph 2.22, Ofgem sets out some interesting suggestions which warrant consideration through impact assessment. For example, that “it could be that the higher unit rate (as a result of abolishing standing charges) drives consumption reduction that outweighs the negative impact to net zero price incentives.” The plausibility of consumption reduction outweighing negative impacts on net zero price incentives should be tested through quantitative analysis, including whether some of that consumption reduction may lead to worse health outcomes.

Ofgem also states that “the higher unit rate could create space for suppliers to compete both under the cap and in the fixed term market, resulting in improved competition, engagement and prices for customers. Suppliers could also be driven to improve their operational efficiency to mitigate the risk that under-recovery of costs (as a result of lower-than-expected demand) impacts their stability.” It is not explained why this might materialise through competition in unit rates and not standing charges. Suppliers are already highly incentivised to maintain efficiency and it is unclear why Ofgem expects that a different tariff structure with a higher chance of not being able to recover efficiently incurred costs would be beneficial for competition. A more plausible case can be made that it would reduce investment in the retail sector and prompt further consolidation.

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?

Based on this initial assessment, with uncertainty regarding the trajectory of network costs and other linked decisions on debt and affordability, we consider that the initial value shifted should be at the lower end, £20. The optimal level of operating costs recovered through the fixed charge may change depending on further analysis and how the benefits case is changed following both Ofgem’s upcoming decisions on DUoS derogations and longer-term DUoS reforms.³ It would be appropriate for Ofgem to test the sensitivity of the modelling to different potential paths for DUoS so that any reforms can be expected to deliver net benefits. Other changes to government policy mechanisms will also affect the overall split in consumer bills between standing charges and unit rates.

Q3. 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?

Ofgem has assessed the impacts of shifting operating costs to the unit rate in terms of:

- improving consumer control
- distributional impacts on consumers
- the impact on suppliers with their different average levels of consumption per customer
- and the impact on supplier efficiency and ability to finance their operations.

³ [Distribution Use of System Charging – Managing the effects of surplus residual charges | Ofgem](#)

Consumer Impacts

Ofgem considers that a shift in operating costs from standing charge to unit rate to be “a zero sum change where, in financial terms, some consumers will benefit, and other consumers will not.” However, to the extent that this move increases the risk facing suppliers and so increases overall costs to be recovered from consumers, it is not zero sum. It is important that the materiality of any associated consumer detriment is considered as part of Ofgem’s assessment.

Summing the impacts across Ofgem’s set of consumer archetypes indicated a potential net positive income weighted saving to consumers of c.£140m for a central £60 transfer scenario (paras 2.28, 3.25 and A2.28). It is not clear if Ofgem has restricted its analysis to impact assessment at a GB level. There is certainly no disaggregated breakdown included in the published working paper. Disaggregated analysis may produce very different outcomes, given the considerable differences in both regional income weightings and in standing charges. There is no compelling case for retaining different regional standing charges which tend to reduce overall transparency and are not effectively incentivising domestic consumer behaviours that reduce overall system costs – as we would expect any new locational charges to be designed to do.

A significant limitation of Ofgem’s archetypes analysis is that it is unable to identify the size of the lower-income group that will be negatively affected due to higher than typical usage (para 3.29). Ofgem notes that the number of households in this group cannot be directly measured without the use of enhanced data matching of high usage customers with markers of vulnerability. However, an initial review suggests there is likely to be an important subgroup of low-income users with usage more than 50% higher than typical consumption values. It is important that plans are made to protect these adversely affected customers from any reform and we appreciate Ofgem’s commitment to explore options to better identify the size of this group and work with government on potential additional protections for them (para 3.30).

Supplier impacts

Ofgem notes the need to take supplier distributional impact into consideration. The more operating costs that are shifted to unit rates, the lower the contribution of low demand customers to suppliers’ fixed costs. This means that suppliers with below average consumption per customer may be less certain that their fixed costs can be recovered. Conversely, suppliers with higher-than-average consumption per customer will gain competitive advantage, as they may over-recover their fixed costs if volumetric unit rates rise.

As consumption changes over time, this may exacerbate impacts on competition and there is uncertainty about the materiality of these impacts. While we have seen a decreasing trend in consumption over recent years, the electrification of heat and transport and the growth of digital technologies is expected to substantially increase electricity demand.⁴ However, it is not clear how technological changes will affect consumption, both overall and on a per supplier basis, and this adds risks to recovery of fixed costs on a unit rate basis. Gas demand is expected to decline as the heat sector decarbonises, however, there is also uncertainty about the pace of change.

Ofgem acknowledges that average customer demand will change, both from period to period and over time, and that this “would make designing an appropriate [reconciliation] mechanism very challenging” (para 3.33). We agree with this assessment and note that one way to avoid these challenges is to have a cost reflective price cap structure with additional targeted measures.

⁴ See, for example, [FES Documents](#) | [ESO \(nationalgrideso.com\)](#)

Ofgem has considered whether it would be necessary to provide a reconciliation mechanism to mitigate the impact of this reduction in allocation of charges to the standing charge on suppliers. It notes uncertainty on the extent to which supplier operating costs should be considered fully fixed costs and that operating costs are a category within suppliers' control. However suppliers do not have control over the extent to which costs that accrue on a per customer basis and cannot be sure of recovering these on a unit rate basis (given uncertainty of demand). We appreciate that Ofgem will consider the degree to which operating costs are fixed through the operating cost review, in the context of its assessment of notionally efficient costs.

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?

To facilitate a reduction in the level of the operating costs charged through the standing charge, Ofgem should make changes to the price cap to allow a greater proportion of costs to be recovered through unit rates. There should also be a reduction in the stringency of the price cap to reflect the additional risks around cost recovery. Specific attention should be given to how operating costs should be recovered for customers on multi-tier tariffs.

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?

No, we do not believe it would be appropriate at this stage for Ofgem to require suppliers to offer additional low standing charge tariff types, whether in the SVT or FTC markets. Rather, Ofgem should leave more time for the market to respond. Competition between suppliers is the best way to discover how much consumers value no or low standing charges. If significant numbers of consumers really value low standing charges (notwithstanding the higher unit rates), suppliers will offer FTCs to respond to this demand. If the market does not respond, this may reveal that the majority of consumers actually value lower bills over greater choice.

If Ofgem were to mandate that suppliers offer a tariff with a low or no standing charge, this would potentially damage competition. To maintain commercial viability, suppliers whose customer base has relatively low average energy use will need to be able to recover their efficiently incurred costs, including those associated with more exposure to volume risk. This means that some suppliers would need to reflect a higher risk of non-recovery in their mandatory tariff, which may result in reputational damage due to the necessarily high unit rates or exit charges.

The challenge of having asymmetric information is significant here – the customers who would be likely to choose a product without standing charges include those who know that their future consumption is likely to be low. Consumers have more information about their own circumstances than suppliers do and more insight into how their own energy use may change and what low carbon technologies they will invest in. This results in a classic adverse selection problem; consumers signing up to a tariff with a high standing charge may expect that their consumption will be high and those opting for tariffs with low standing charges may know that their consumption will be low. This means that engaged customers are able to avoid paying a fair share of system costs.

Customers in vulnerable situations may also be drawn to a mandatory no standing charge tariff, despite their demand being above average, meaning that they face higher bills than they can afford to pay. Some suppliers have a higher proportion of disadvantaged customers than others and may face additional costs in managing resultant debt related costs, negatively affecting competition in the retail energy sector. A mandatory low or no standing charge tariff may also lead to customer service challenges as it is more difficult for customers to understand

the range of options open to them. These negative effects on competition could be mitigated using a levelisation mechanism to maintain competition in retail energy markets. We would be happy to engage in further discussions if this is taken forwards.

Competition in this area of the market should be focused on suppliers' core function - customer service and development of products. It is in the interests of consumers that innovation in these areas is a priority, rather than management of volume risk associated with consumers seeking tariffs that minimise their own contribution to overall system costs.

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?

Ofgem's current assessment of the options to increase standing charge diversity on SVT tariffs is that they appear to require a fundamental change to how the price cap is set and would likely result in an overall reduction in protection for SVT customers. We agree that it is not possible to create flexibility for consumers in how their costs are recovered under the price cap, without effectively reducing the protection that the cap provides. It is important that this inherent trade-off is understood beyond industry. As Ofgem sets out in its working paper, the benefits that accrue to low usage consumers will be directly related to the detriment to high usage consumers. Those highly engaged consumers who want to avoid standing charges have the option to do this by switching to a commercially available fixed term contract.

No or low standing charge tariffs inherently increase the uncertainty facing consumers with regard to their bill – while customers may reasonably expect to use a low amount of energy, a cold winter or life events such as unforeseen illness may increase household energy usage. The higher the proportion of costs that are recovered through the unit rate, the greater the uncertainty around bills and the greater the scope for confusion about what they have signed up for.

Ofgem should review the assumed consumption profiles embedded in the price cap methodology for setting wholesale and network cost allowances, particularly for ToU tariffs such as Economy 7. While the current price cap methodology remains in place, suppliers may be inhibited from introducing new default tariffs until there is clarity on this.

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

The reality of increasing diversity in standing charges on default tariffs is that vulnerable consumers will be at risk of tariffs that do not best meet their needs. This may be due to changes in the customer's circumstances leading to increases in their energy use or to misunderstandings about the default tariffs. There are already information guidelines in place, and it is not clear that additional measures here could effectively address the problem.

Suppliers already invest substantial sums in providing support for vulnerable consumers. However targeted support will be needed to protect these vulnerable consumers that goes beyond what suppliers are in a position to provide. We agree with Ofgem's view that "without suitable protections, it is likely that the detriment to default customers outweighs the benefit of increased choice for those customers" (para 4.34). To maintain financial resilience in the supply market, Ofgem should ensure that any measures to increase diversity are implemented alongside measures to ensure that no supplier's consumer base is adversely affected overall, relative to the price cap.

A recent report published by the Committee on Fuel Poverty found that, for fuel poor households, additional costs associated with the installation of energy efficiency measures

combined with uncertainty around running costs of low carbon technologies make the net zero transition unaffordable. This highlights reasons that vulnerable customers may be less able to reduce their usage, and realise benefits from a lower standing charge, but also may suggest an approach that Ofgem could work with government on – namely improving access to the ECO scheme. We have shared details with Ofgem of our proposals around the ECO scheme including to double the scale of ECO5 and to make it more efficient. We would greatly value Ofgem’s support to suppliers in proposing a redesign of the scheme to take to Government. We estimate that it would take 33 years under the existing scheme to improve the energy efficiency of the c.1m households who qualify, and our proposals would reduce this to c.15 years. This would be a key factor in ensuring enduring affordability support for certain households through lower energy consumption and costs, thus lifting them out of fuel poverty and the need for direct financial support.

Ofgem states that it has “taken a pragmatic approach to assessing the compliance of more complex SVTs, such as multi-rate tariffs and that it works with suppliers “to understand the potential for customer detriment and subsequently take a proportional approach to compliance.” However, as well as being a barrier to SVT standing charge diversity, this approach is arguably anti-competitive and non-transparent in a context where Suppliers with alternative tariff structures are required under SLC 28AD 32 and 33:

- seek a direction from Ofgem (including evidence that it is unlikely that any customer will have a consumption level that would mean they incur charges in excess of the Relevant Maximum Charge)
- assess each customer’s charges under the tariff within the relevant Charge Restriction Period and pay a rebate to affected customers.

We urge Ofgem to produce clear guidance setting out what is meant by a proportional approach here and how suppliers can remain compliant while recovering efficiently incurred costs. This would apply to the current framework and also if Ofgem expands the reasons for which a price cap derogation could be granted to include that the tariff would not result in a higher customer weighted average charge.

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

We understand the reasons why smoothing could be beneficial for some prepayment meter customers; however, we consider that implementation of measures to deliver this will present significant technical challenges and add complexity. The costs of this complexity should be taken into account – both in terms of the potential effects on consumer experience and trust and in terms of any additional supplier costs due to the approach taken, so as to ensure that any measures can be expected to deliver net benefits for consumers.

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

We welcome Ofgem’s initiation of a broader and more holistic review of how system costs are recovered, with a view to presenting options for reform next year. We consider that the appropriate allocation of network and policy costs is important. As noted in the working paper (para 5.7), due to a changing context, the distributional impacts of Ofgem’s decisions on the Targeted Charging Review have been stronger than was anticipated at the time these decisions were made. Although we agree with the need for reassessment, we note that this type of policy review brings regulatory uncertainty, which is unhelpful for investment in low carbon technologies. We welcome any improvements that can be made to the charging methodologies while maintaining the predictability of network charges. Ofgem should be careful to avoid re-opening issues where this is not required and should seek to provide a

clear scope for the reform process as soon as reasonably practicable. In the longer term, it may also be important that the approach to gas network charging is reconsidered, as the fixed gas system costs are being recovered from a declining consumer base.

As Ofgem recognises, additional investment will be needed in the electricity networks to be able to reach net zero, which will be reflected in future electricity network charges. We agree with Ofgem that electricity Transmission Network Use of System (TNUoS) costs are likely to be at a higher level. The working paper sets out Ofgem's view that DUoS residuals are not an area of significant concern, however improvement can and should be explored as part of the upcoming review. Any consideration of levelling the cost of network charges across regions should preserve the ability of network companies to continue to recover their allowed revenues.

The costs of government social and environmental schemes are largely recovered through volumetric p/kWh levies, with the costs of the Warm Home Discount scheme being an exception. These costs are determined by government policy rather than set by Ofgem. However, awareness of the potential impact of the approach to recovery of the costs of government schemes is relevant to standing charge considerations and Ofgem has a role in advising government.

ScottishPower
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