

Submitted to Standing charges: domestic retail options
Submitted on 2024-09-20 10:29:43

Case for change

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

Please use this text box to tell us about any views you have on our case for change.:

We are broadly supportive of Ofgem's short-term priorities as set out in the case for change (i.e. to bear down on costs in the standing charge and to move to give consumers more choice in tariffs available to them). We also agree that simple abolition of standing charges would have undesirable whole system effects (most notably, increasing the incentives for inefficient bypass of the grid).

However, we remain fundamentally sceptical about the fitness for purpose in the medium term of a strategy based on detailed and prescriptive regulation of the structure of charges through the default price cap. The impact assessment quoted by Ofgem shows that this has a very limited overall impact in the context of broader fairness of energy charging, while absorbing a disproportionate amount of regulatory bandwidth.

We note there is no 'magic bullet' for tariff design which will simultaneously satisfy all social and cost-reflectivity objectives.

We believe that it is crucial to unlock innovation to deliver consumer benefit in the energy transition and that this can be best delivered through a policy and market framework that gives retailers and service suppliers freedom and incentives to make commercial trade offs in this space.

In relation to affordability/vulnerability objectives we think the direction of travel should be towards considering more explicit outcome based policies to mandate or incentivise retailers to achieve social policy outcomes relating to energy access / addressing issues of vulnerability. This would leaving maximum room for innovation in service design to meet social needs.

Considerations for moving operating costs from standing charges to unit rates

2 What are your views on the range (£20 to £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?

Please use this text box to tell us your views.:

In the short term we are broadly supportive of tilting operating cost recovery from standing charges to unit rates, provided that there are complementary policies (e.g. Warm Home Prescription style interventions) to address the specific needs of consumers with higher than typical usage needs (e.g. due to health conditions).

3 What are your views on the trade-offs and impacts we have identified for consumers and suppliers? Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?

Please use this text box to tell us your views on the trade-offs and impacts we have identified for consumers and suppliers:

We think Ofgem should look closely at the fairness and cost allocation issues/rationale specifically relating to PPM customers. There seems to be a potential case for some reduction in the standing charges recovered from PPM customers, given the more contingent nature of the potential service demand that PPM customers can place on the system. In addition, following a period of self-disconnection, there would appear to be a case to apply a lower standing charge for the period during which a disconnected customer had no option to access services from the network.

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?

Please use this text box to tell us what changes are required, if any.:

We recognise the difficulties of operationalising the price cap policy, however, we would continue to encourage Ofgem to consider opportunities to reduce the level of prescriptive control over tariff structures.

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?

Yes

Please use this text box to give us more details about your answer.:

On balance, in the absence of wider reform, removal or substantial dilution of the inherent prescriptiveness of the tariff cap, a move to mandating suppliers to offer low or no standing charge tariff options could help to stimulate new thinking and service offers.

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?

Please use this text box to suggest ways we could create flexibility in cost recovery without reducing protection provided by the cap.:

7 In exploring alternative approaches to price cap compliance, what, if any, safeguards would be needed to protect vulnerable consumers?

Please use this text box to give us your views on the safeguards needed to protect vulnerable customers.:

Different approaches to price cap compliance would become more viable within a broader context of complementary policies and incentives to reward suppliers who innovate in meeting the needs of low income and vulnerable customers.

This could in the medium term take the form of more explicit outcome based policies to mandate or incentivise retailers to achieve social policy outcomes relating to energy access / addressing issues of vulnerability

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

Please use this text box to suggest key considerations we should take into account in developing options for smoothing spend for prepayment meter customers.:

As set out above we believe there is a case for considering carefully the costs that are imposed on PPM customers through standing charges, within the wider context of the different nature of the service they have access to.

There is a case to adjust the costs recovered from PPM customers following a period of self disconnection to take account of the fact that they have not been in a position to impose demand on the network during that period.

More broadly we would encourage Ofgem to consider how the operation of the price cap can enable service innovation in meeting the specific needs of low income and vulnerable customers.

Network and policy cost allocation

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

Please use this text box to give us your views.:

In the longer term we believe that Ofgem should give consideration to more radical overhaul of its regulation of network charging. There is a case for reforms which give greater commercial freedom to network companies over the detail of network charges, subject to broader outcome-based incentives and mandates (e.g. relating to the achievement of clearly defined social or broader decarbonisation outcomes). This could give greater scope for innovation in commercial terms and service offerings between network operators and retail suppliers, in turn promoting greater innovation and differentiation in retail offers to consumers.

As we have suggested in our responses to other questions, we also believe that there is a strong case to re-examine the rationale for network and policy cost recovery from PPM customers.

About you

11 What is your name?

Name:

George Day

12 What is your email address?

Email:

george.day@es.catapult.org.uk

13 Are you responding as an individual or an organisation?

Organisation

14 If you're responding on behalf of an organisation, please tell us the name of the organisation.

Organisation:

Energy Systems Catapult

15 If responding on behalf of an organisation, please tell us what type of organisation you represent. If you are responding as an individual you can leave this blank.

Other (please specify)

If you answered 'other', please use this text box to tell us which organisation you represent. :

Energy Systems Catapult is an independent research and technology organisation. Our mission is to accelerate Net Zero energy innovation.

16 Tell us which sector you work in.

Electricity and gas

If you answered 'other', please use this text box to tell us which sector you work in. :

17 Do any of your responses contain confidential information?

No

If any of your responses contain confidential information, please use this text box to clearly explain which parts of your response you wish to be kept confidential. We will publish your name as part of the response unless you tell us not to. :

Feedback

18 How easy was the information to understand?

Easy

Please use this text box to tell about any other comments you may have.:

The options paper was well written and focused.

19 How easy was it using this platform (Citizen Space)?

Easy

Please use this text box to tell about any other comments you may have.: