Future Energy Associates

Tariff Watch
A Year in Review

Authors:
Dylan Johnson, Director, Future Energy Associates
Clem Attwood, Director, Future Energy Associates

Warm This Winter

Tariff Watch

Executive summary

Recommendations Addressed by Ofgem:

- **Convergence of PPM and Direct Debit Prices (TW1):** Ofgem implemented a levelling charge, balancing the standing charges between PPM and Direct Debit customers.
- **Review of Wholesale Energy Allowances (TW1):** Ofgem conducted a thorough review and concluded no systematic differences in costs.
- **Reduction on EBIT Allowance (TW1):** Ofgem revised the EBIT allowance to include both fixed and variable components.
- **Market Stabilisation Charge (MSC) Removal (TW1):** The MSC expired on March 31, 2024.
- **Consumer Standards Consultation (TW2):** Ofgem announced reforms to improve customer service, effective December 2023.
- **New Prepayment Meter Rules (TW2):** Ofgem set conditions for PPM installations, effective November 8, 2023, although these did not go far enough in addressing the concerns of all campaigners.

Recommendations Unaddressed by Ofgem:

- **Transparency in Cost Calculations (TW3a, TW3b):** Ofgem has not improved the transparency or provided detailed breakdowns and machine-readable data formats for DNO and gas network costs.
- **Clearer Explanations for Shifting DUoS and TNUoS Costs (TW3a):** Ofgem has initiated a review but has not provided clear explanations or justified the cost shifts.
- **Addressing Chronic Underspending by DNOs (TW3a):** It remains unclear what specific actions Ofgem is taking to ensure adequate investment by DNOs.
- **Dynamic Approach to Line Losses Calculation (TW3a):** Ofgem has not implemented a dynamic framework for line losses.
- **Management of Gas Network Decommissioning Costs (TW3b):** Ofgem has acknowledged the issue but has not detailed specific steps to manage decommissioning costs.
- **Ownership and Ethical Considerations (TW3b):** Ofgem has not outlined specific actions to scrutinise and align gas network ownership with national security and ethical standards.
- **Cap on Exit Fees (TW4):** Ofgem has not implemented measures to cap exit fees or improve their transparency.
- **Shift Costs from Standing Charges to Unit Rates (Standing Charge Report):** Ofgem has closed their call for input on standing charges, but no further steps have been taken to move adjustment allowances, headroom allowances, profit allowances, payment uplift, and levelling costs entirely to the unit rate section of the bill.
- **Shift Policy Costs from Standing Charges to General Taxation (Standing Charge Report):** While the Labour Party has indicated a willingness to broadly address standing charges in their manifesto, no concrete steps have been taken yet to move policy costs from standing charges to general taxation.

Table of contents

Abbreviations:

- DNO: Distribution Network Operator
- DUoS: Distribution Use of System
- EBIT: Earnings Before Interest and Tax
- MSC: Market Stabilisation Charge
- PPM: Prepayment Meter
- **SMNCC:** Smart Metering Net Cost Change
- TNUoS: Transmission Network Use of System

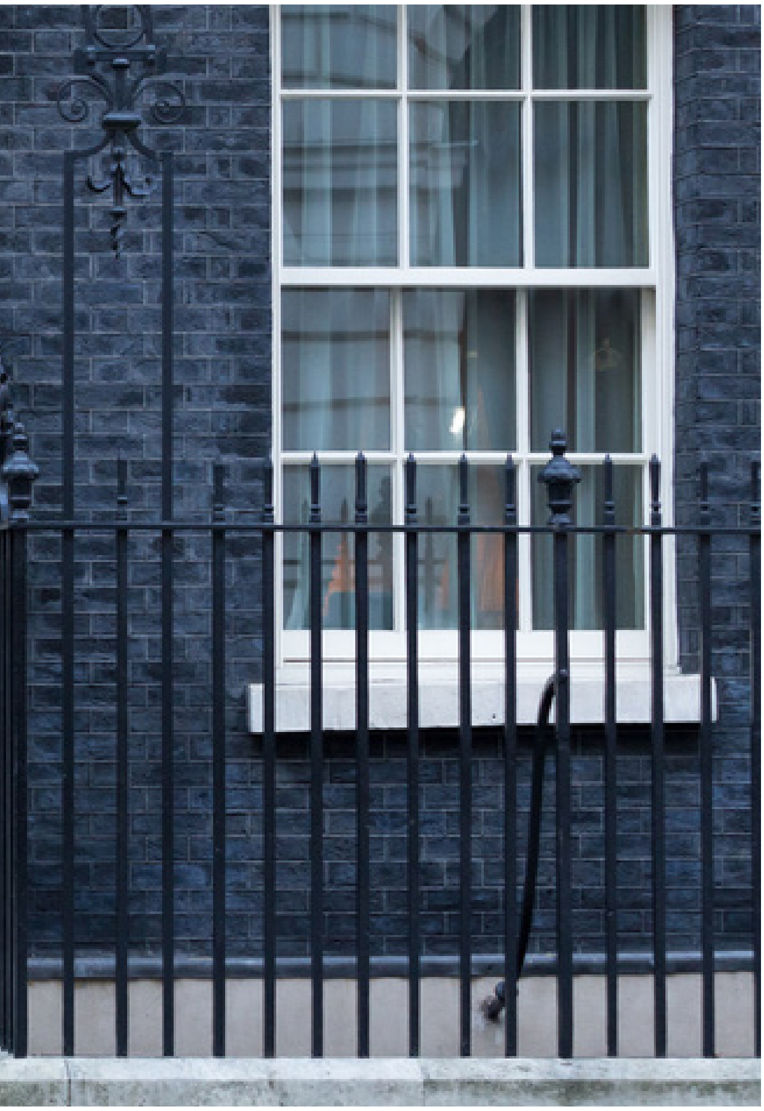
Introduction

Over the past year, the Tariff Watch reports, supported by the Warm This Winter campaign, have significantly influenced policy changes and highlighted critical issues in the retail energy market. Each report provides a comprehensive analysis of the state of the market and delves into specific components of the Ofgem price cap, such as network costs, operating costs, exit fees, prepayment meter tariffs, and the EBIT allowance. These detailed examinations have uncovered areas needing reform and provided data-driven recommendations to ensure that costs align with actual market conditions and consumer fairness.

Through these targeted analyses and comprehensive recommendations, the Tariff Watch reports have effectively driven the agenda for a more transparent, equitable, and consumer-focused energy market. The Warm This Winter campaign continues to hold regulators accountable, advocating for essential reforms that protect and empower consumers, ensuring a fairer and more efficient energy market for all.

Tariff Watch 1

Tariff Watch 1 provided a comprehensive analysis of the state of the retail energy market as of July 2023. The report highlighted the market's gradual recovery, marked by the entry of new suppliers and an increase in the availability of fixed tariffs. It detailed significant drops in both electricity and gas unit rates, while standing charges largely remained unchanged. The report emphasised the need for regulatory interventions to ensure fair pricing, especially for prepayment meter (PPM) users, and called for reviews of wholesale energy and EBIT allowances to align with actual costs and consumer affordability. The recommendations aimed to promote competition, enhance transparency, and protect vulnerable consumers, ensuring a fairer and more efficient energy market.



Recommendation 1: Convergence of Prepayment Meter (PPM) and Direct Debit Prices

Details:

Tariff Watch called for the convergence of Prepayment Meter (PPM) and Direct Debit prices to ensure fairness in energy billing. Specifically, this recomincluded:

- Ensuring PPM tariffs are capped at the same rate as Direct Debit tariffs in the long term.
- Reducing PPM standing charges to the same level as Direct Debit charges to avoid financially penalising PPM users.

Tariff Watch argued that with the introduction of smart meters, the additional cost of supplying energy via a prepayment meter is no longer justified. In fact, smart prepayment meters can be more cost-effective to supply.

Ofgem Action: Ofgem has taken steps to address this recommendation. A levelling charge has been implemented, meaning direct debit customers now subsidise prepayment metered customers. This reconciliation mechanism ensures that the standing charge amount on the price cap level for prepayment and Direct Debit customers is adjusted and balanced, thereby reducing any market distortions the levelisation allowance could create. Ofgem has published details on the levelisation process and rates, which are calculated and reconciled on a quarterly basis starting from April 1, 2024

Is this sufficient?: While these measures address the value alignment between PPM and Direct Debit tariffs, it is important for Ofgem to provide a detailed breakdown of the actual additional costs of serving prepayment-metered customers. It remains unclear why these costs still need to be socialised, raising questions about the incentive structure in place. Currently, suppliers benefit from the lower costs associated with smart meters while still being compensated for the costs related to non-smart prepayment meters. Enhanced transparency on these cost components would help ensure that the levelling charge system is both fair and justified, fostering greater trust and understanding among consumers.

Recommendation 2: Review of Wholesale Energy Allowances in the Price Cap

Details: Tariff Watch recommended assessing whether the current wholesale energy allowances in the price cap accurately reflect actual costs. It also suggested extending the recovery period for backwardation costs to ensure a more balanced and fair cost distribution over time.

Ofgem Action: Ofgem conducted a thorough review of wholesale costs incurred between October 2022 and September 2023. They concluded that there were no systematic differences between the wholesale costs and the allowances set by the price cap methodology, and thus no adjustments to the cap were proposed. Ofgem also focused on improving the transparency of the demand weightings used to inform the backwardation allowance and planned technical changes to enhance the clarity of the cost calculation processes.

Further Considerations: While Ofgem's review addresses the alignment of wholesale costs with the allowances, there is a need for continuous monitoring and transparency to ensure that the methodology remains robust and reflective of actual market conditions. Detailed breakdowns of cost components and methodologies should be provided to stakeholders to foster trust and understanding. Additionally, extending the recovery period for backwardation costs might still be necessary to mitigate short-term market volatility impacts on suppliers and consumers.

Recommendation 3: Reduction of EBIT Allowance

Details: Tariff Watch recommended reviewing the EBIT allowance methodology to balance supplier financial stability with consumer costs. The proposed changes indicated an increase in the fixed EBIT component, potentially raising household costs.

Ofgem Action: Ofgem has decided to amend the methodology for setting the EBIT allowance, effective from October 1, 2023. Previously, the EBIT allowance was a percentage-based component that scaled with the overall cap level. This approach allowed suppliers to profit proportionately as energy prices rose, which was beneficial during periods of high prices. However, Ofgem has now introduced a mixed methodology consisting of a fixed component and a variable component. This change is intended to ensure a more stable and predictable profit margin for suppliers, regardless of fluctuations in energy prices.

Is this sufficient?: While this change aims to provide greater financial stability for suppliers, it raises concerns about fairness for consumers. The new fixed EBIT component, implemented when prices were at their peak, seems to offer suppliers the best of both worlds: percentage-based profits during rising prices and a fixed component as prices decline. This dual benefit for suppliers contrasts with the need for a more consumer-centric approach, where actual costs and efficiencies are transparently reflected in the price cap.

Recommendation 4: Market Stabilisation Charge (MSC) Extension

Details: Tariff Watch recommended removing the Market Stabilisation Charge (MSC) to promote competition and lower retail prices. The MSC was originally introduced to protect the energy market from instability and volatility during periods of high and fluctuating prices. However, as market conditions improved, the MSC's continued presence began to dampen competition.

Ofgem Action: Ofgem decided to allow the MSC to expire on March 31, 2024. This decision followed a review of the current market conditions and the MSC's impact. Ofgem concluded that the market risks the MSC was designed to mitigate have significantly reduced, and the MSC's negative impact on competition now outweighs its benefits. The decision to extend the MSC was originally made to maintain market stability during volatile periods, but with market conditions stabilising, the MSC is no longer deemed necessary. Ofgem also recognized that the MSC had delayed the return of competitive pricing and innovation in the market.

Were we happy with Ofgem's action?: While the removal of the MSC is a positive step towards promoting competition and lowering retail prices, it is noted that this action could have been taken six months earlier to benefit consumers sooner. The delay in removing the MSC meant that suppliers had less incentive to compete and offer better deals during a time when market conditions were already improving. It is notable that Ofgem's decision to allow the MSC to expire was very quickly followed by their beginning to consider lifting the ban on acquisition tariffs (BAT).

Tariff Watch 1 actions for Ofgem and Government to Address Outstanding Issues:

Immediate Actions:

- Refuse to lift the ban on acquisition tariffs.

Longer-Term Actions:

- Continuously review the levelling costs needed for prepayment-metered customers.
- Regularly assess the EBIT allowance to ensure it reflects actual costs.
- Monitor wholesale allowances within the price cap to maintain alignment with market conditions.

Tariff Watch 2

"Tariff Watch 2," provided an updated analysis of the retail energy market as of October 2023. The report highlighted the entry of a new supplier, Tulo Energy, and an increase in the availability of fixed tariffs. It detailed significant price reductions for both electricity and gas, but noted high standing charges. The report called for greater transparency in operating costs and emphasised the need for improved consumer standards and protections, especially for vulnerable households.

Key Recommendations

Recommendation 1: Operating Costs Transparency

Details: Tariff Watch 2 highlighted that the current operating costs used in the price cap calculations are outdated. These costs are primarily derived from a survey conducted in 2017 and have since only been adjusted based on inflation. This approach does not accurately reflect the actual costs incurred by suppliers today. Therefore, it is crucial to review and update these operating costs to ensure they are current and fair. Additionally, there is a need to reassess how these costs are allocated, particularly whether they should fall under the standing charge component or the unit rate section.

Details: Tariff Watch 2 highlighted that the current operating costs used in the price cap calculations are outdated. These costs are primarily derived from a survey conducted in 2017 and have since only been adjusted based on inflation. This approach does not accurately reflect the actual costs incurred by suppliers today. Therefore, it is crucial to review and update these operating costs to ensure they are current and fair. Additionally, there is a need to reassess how these costs are allocated, particularly whether they should fall under the standing charge component or the unit rate section.

Ofgem Action: Ofgem is currently in the consultation phase to address these concerns. The consultation document presents several options:

1. **Maintaining the current methodology:** Adjusting costs for inflation.
2. **Using more recent data:** Conducting new surveys or data collection.
3. **Hybrid approach:** Combining updated survey data with inflation adjustments.

These options aim to ensure that the operating cost allowances are more reflective of the actual costs faced by suppliers. This review is long overdue, and it is essential for Ofgem to revise and provide a detailed breakdown of these costs to enhance transparency and fairness in the price cap methodology.

Further Considerations: The review process should not only update the cost figures but also re-evaluate the allocation of these costs between standing charges and unit rates. This reassessment will help ensure that the pricing structure is equitable and transparent for all consumers.

Recommendation 2: Consumer Standards Consultation

Details: Tariff Watch 2 called for improved quality of service from energy suppliers. The focus was on ensuring that all domestic customers can easily contact their suppliers and receive support if they are struggling to pay their bills. This recommendation was driven by a decline in overall consumer satisfaction with customer service by domestic energy suppliers since 2018.

Details: Tariff Watch 2 called for improved quality of service from energy suppliers. The focus was on ensuring that all domestic customers can easily contact their suppliers and receive support if they are struggling to pay their bills. This recommendation was driven by a decline in overall consumer satisfaction with customer service by domestic energy suppliers since 2018.

Ofgem Action: On July 26, 2023, Ofgem announced a series of reforms aimed at improving customer service standards for both businesses and households. These new rules, which were implemented in December 2023 and included the following:

- Extend enquiry line hours to evenings and weekends, and make contact methods more accessible.
- Provide effective support for customers struggling with bills, including early intervention and temporary repayment holidays.
- Prioritise immediate assistance for customers in vulnerable situations.
- Ensure 24/7 emergency support for customers cut off from power or gas.
- Require suppliers to publish customer service performance information to aid consumer choice.

Further Considerations: This review and subsequent actions by Ofgem were long overdue. They should not only ensure these rules are implemented effectively but also continuously monitor and adapt consumer standards to ensure that suppliers consistently provide high-quality service.

Recommendation 3: New Prepayment Meter Rules

Details: Tariff Watch 2 recommended implementing new rules to protect vulnerable households from the forced installation of prepayment meters (PPMs). This included ensuring that energy suppliers treat customers fairly and exhaust all other options before considering the installation of a PPM, particularly for vulnerable groups.

Ofgem Action: Effective from November 8, 2023, Ofgem set out stringent conditions for energy suppliers regarding the installation of PPMs. Suppliers must now:

- Make at least 10 contact attempts and conduct a welfare visit before installing a PPM.
- Avoid installations for high-risk customers, including those with medical dependencies or vulnerable situations.
- Provide regular monitoring data to Ofgem to identify concerning practices early.
- Compensate customers and revert to credit meters if rules are not followed.

As of January 8, 2024, EDF, Octopus, and Scottish Power have met the regulator's conditions to restart involuntary PPM installations. Ofgem has emphasised the importance of suppliers following these rules strictly to avoid repeating past practices that negatively impacted vulnerable customers. The regulator was criticised for not going far enough on this issue by some campaigners and calls for a total ban on force fitting of prepayment meters remain.

Tariff Watch 2 actions for Ofgem and Government to Address Outstanding Issues:

Immediate Actions:

- Revert decision to restart involuntary PPM installations,

Longer-Term Actions:

- Complete review and publish findings of operating costs. Longer term more frequent consultations on operating costs should be complete with reviews happening at least every two years.

Tariff Watch 3a - Electricity Network

Tariff Watch 3a focused on the electricity network and the associated costs and efficiencies. The report highlighted the need for more transparent cost analyses from Ofgem, specifically detailing tariff components, investment costs, and maintenance expenses. It addressed the issues of underspending by Distribution Network Operators (DNOs) and the incentive structures that contribute to this. Additionally, the report recommended a dynamic approach to calculating line losses to reflect the modern, decentralised energy landscape and enhance billing accuracy and resource allocation.

Key Recommendations

Recommendation 1: More Transparent Cost Analysis

Details: There is significant room for improvement in how Ofgem details the costs for Distribution Network Operators (DNOs).

- Detailed Breakdown: Provide a clear description of all tariff components, including costs for new investments, maintenance, and administrative expenses.
- Machine-Readable Data: Supply all underlying data and tariffs in a machine-readable format (e.g., CSV or XML), and include an explanatory document mapping each data point to the corresponding component in the cost model.
- Aggregation and Determination: Clearly explain the aggregation process for final tariffs, outlining how individual costs are combined and weighted.

Current Status: So far, Ofgem has not taken any action or initiated any measures to address this recommendation. There have been no efforts to improve transparency in cost analysis for DNOs as suggested.

Recommendation 2: Clearer Explanations for Shifting DUoS and TNUoS Costs

Details: There is a need for Ofgem to provide clearer explanations regarding the reasons for shifting Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) costs from the unit rate to the standing charge. This transparency is crucial for stakeholders to understand the implications and rationale behind such changes.

- Justification for Changes: Ofgem should clearly articulate why it is necessary to shift costs from the unit rate to the standing charge. This includes detailing the benefits and any potential drawbacks for consumers and how it impacts overall cost distribution.
- Impact Assessment: Provide an assessment of how these changes affect different types of consumers, particularly those who may be disadvantaged by higher standing charges versus unit rates.
- Current Status: Ofgem is currently reviewing the impact of this shift and has initiated a call for input from stakeholders.

Specific Points:

- Network Costs Recovery: Historically, DUoS and TNUoS costs were recovered through unit rates. The Targeted Charging Review (TCR) moved these to standing charges to prevent users from avoiding network costs, ensuring all users contribute fairly.
- Impact on Consumers: This shift has led to increased standing charges, disproportionately affecting low-consumption households. Ofgem's review seeks to address whether the current methodology is the most equitable.

Recommendation 3: Address chronic underspending by DNOs and removing the Incentive Loop

Details: There is a need to address the chronic underspending by Distribution Network Operators (DNOs) and remove the incentive structures that contribute to this behaviour. Underspending on network improvements can lead to long-term inefficiencies and reliability issues.

- Current Issue: DNOs have consistently underspent against their allowances from 2015 to 2022, particularly in areas requiring long-term network improvements.

- Incentive Structure: The current regulatory framework inadvertently encourages DNOs to underspend to benefit from financial incentives.

Recommendations for Ofgem:

- Ensure Adequate Investment: Establish mechanisms to ensure that DNOs invest adequately in network improvements and maintenance.

- Revise Incentive Structures: Modify the regulatory framework to discourage underspending and promote necessary investments in network infrastructure.

Current Status: Ofgem is aware of the issue of underspending and is considering measures to address it. However, it remains unclear what specific actions or strategies Ofgem is implementing to tackle this problem. The lack of detailed plans or initiatives leaves stakeholders uncertain about the effectiveness of future measures to ensure DNOs make necessary investments in maintaining and improving network infrastructure.

Recommendation #4: Dynamic Approach to Line Losses Calculation

Details:

- Current Issue: Line losses represent energy lost during transmission from generation to consumption points. Currently, these losses are calculated using a static model with uniform loss factors, which does not accurately reflect the modern, decentralised energy landscape.

- Recommended Action: Implement a dynamic, geographically sensitive framework to more accurately reflect regional differences, enhance billing accuracy, and improve resource allocation.

Ofgem Action: Ofgem has not taken any significant steps to address this recommendation. There is a lack of initiative to implement a dynamic framework for calculating line losses, leaving the current static model in place despite its limitations.

Tariff Watch 3b - Gas Network

Tariff Watch 3b focused on the gas network and its associated costs and ownership concerns. The report highlights the need for greater transparency in cost calculations, particularly how gas network costs are divided between standing and unit rate costs. It also emphasised the importance of managing gas network decommissioning costs and scrutinising the ownership of gas networks, especially by foreign state-owned entities, to ensure alignment with national security and ethical standards.

Key Recommendations

Recommendation 1: Transparency in Cost Calculations

Details:

- Problem: There is significant room for improvement in how Ofgem details the costs for the gas network. This includes the lack of clear methodologies and machine-readable data formats, which hinders transparency in cost calculations.

Specific Needs:

- Detailed Breakdown: Ofgem should provide a clear description of all tariff components, including costs for new investments, maintenance, and administrative expenses.
- Formula Transparency: Offer a transparent formula for aggregating tariffs, including specific variables and coefficients.
- Machine-Readable Data: Supply all underlying data and tariffs in a machine-readable format (e.g., CSV or XML), and include an explanatory document mapping each data point to the corresponding component in the cost model.

Current Status:

- Ofgem Action: Ofgem is aware of the need for increased transparency but has not yet implemented specific measures to address these issues. The lack of detailed plans or initiatives leaves stakeholders uncertain about future improvements in cost transparency.

Recommendation 2: **Management of Gas Network Decommissioning Costs**

Details:

- Problem: The additional costs projected to start from 2026 for gas network decommissioning need to be addressed. Without proper management, these costs could lead to financial burdens on consumers.

Specific Needs:

- Future Costs: Address the additional costs projected to start from 2026 for gas network decommissioning.
- Collaborative Approach: The UK government should collaborate with Ofgem and stakeholders to manage the financial risks associated with stranded gas assets and decommissioning costs.
- Proactive Planning: Develop a comprehensive plan to ensure a smooth transition and avoid unexpected financial burdens on consumers.

Current Status:

- Ofgem Action: Ofgem has acknowledged the upcoming decommissioning costs but has not detailed specific steps or collaborative efforts with the UK government and stakeholders to manage these financial risks effectively.

Recommendation 3: **Ownership and Ethical Considerations**

Details:

- Problem: The ownership of gas networks by foreign state-owned entities raises questions about national security, ethical standards, and alignment with the UK's decarbonization goals.

Specific Needs:

- Scrutiny of Ownership: Scrutinise the ownership of gas networks, especially by foreign state-owned entities like Qatar Investment Authority and China Investment Corporation.
- Alignment with Standards: Ensure that ownership aligns with national security, ethical standards, and the UK's decarbonization goals.
- Ethical Investment: Promote investments that support the UK's long-term energy sustainability and security objectives.

Current Status:

- Ofgem Action: While Ofgem has recognized the importance of ownership considerations, specific actions or guidelines to scrutinise and ensure alignment with national security and ethical standards have not been clearly outlined.

Tariff Watch 3 actions for Ofgem and Government to Address Outstanding Issues:

Immediate Actions:

- Improve transparency in cost analysis for both electricity and gas networks by providing detailed breakdowns of tariff components, investment costs, and maintenance expenses, and supplying all underlying data in machine-readable formats.
- Scrutinise the ownership of gas networks, ensuring alignment with national security, ethical standards, and the UK's decarbonization goals.

Longer-Term Actions:

- Continuously review and revise the regulatory framework to discourage underspending by Distribution Network Operators (DNOs) and ensure adequate investment in network improvements and maintenance.
- Collaborate with the UK government and stakeholders to manage financial risks associated with gas network decommissioning, developing a comprehensive plan to avoid unexpected financial burdens on consumers.

Tariff Watch 4 - Exit Fees

Tariff Watch 4 provides a detailed pricing analysis of the retail energy market. The report focuses on the impact of exit fees on consumer flexibility and market competition, highlighting the need for regulatory interventions to ensure fairness and transparency.

Key Recommendations

Recommendation: Cap on exit fees

Details:

- Problem: Exit fees have dramatically increased, rising from an average of £42.06 in Q1 2021 to a peak of £187.21 by Q2 2024, representing a 345% increase. High exit fees pose a significant barrier to consumer market engagement and flexibility.

- Assessment of Fairness: Ensure that exit fees reflect the actual costs associated with contract termination and do not unjustly penalise consumers. Consider implementing a cap on exit fees, suggested at £100, to prevent excessive charges.

Current Status:

- Ofgem Action: Specific measures to cap these fees or improve transparency have not yet been implemented. The need for clear guidelines and proactive monitoring remains critical to protect consumer interests.

Tariff Watch 4 actions for Ofgem and Government to Address Outstanding Issues:

Longer-Term Actions:

- Initiate a consultation on exit fees to gather input from stakeholders and consumers, aiming to develop comprehensive guidelines and potentially implement a cap on exit fees to ensure they are fair and reflective of actual contract termination costs.

Economy 7 Tariff Analysis

Problem: Economy 7 tariffs were found to be increasing disproportionately compared to other tariffs, significantly impacting consumers who rely on these tariffs for heating and electricity. Anecdotal evidence suggested that these tariffs were causing financial strain on households using electricity-only heating.

Action: Future Energy Associates, using their data product Tariffscanner, verified these claims. They found that Economy 7 tariffs had increased by an average of £116 annually, which is a 7.6% rise. This increase led to Economy 7 users paying 46% more than other electricity tariffs. Future Energy Associates collaborated with Campaign Collective to raise awareness about this issue through a press release and media appearances, including a BBC interview by Clement Attwood from Future Energy Associates.

Outcome: The heightened awareness and pressure led Ofgem to re-evaluate how they review the Economy 7 tariff structure specifically around how the day/night consumption thresholds change substantially region to region and how the price cap for those households on Economy 7 does not consider these nuances.

Standing Charge Reduction Analysis

The "Standing Charge Reduction Analysis" report provides a comprehensive examination of the increase in standing charges on household energy bills and proposes significant reforms to make these charges fairer and more equitable.

Key Recommendations

Recommendation 1: Transfer the adjustment allowance, headroom allowance, profit allowance, payment uplift, and levelisation costs entirely to the unit rate section of the bill:

Details:

- Problem: A disproportionate burden of costs falls on standing charges, many of which the report argues should be placed on unit rates. The problem is that the adjustment allowance, headroom allowance, profit allowance, payment uplift, and levelling costs are placed on standing charges.
- Solution: To address the disproportionate burden of standing charges on low-consumption households the report recommended moving the above stated costs to the standing charge portion of the bill. This change ensures that these costs are more closely aligned with actual energy consumption, promoting fairness and encouraging energy efficiency.

Current Status: Ofgem closed their call for input on standing charges on 20 January 2024. Call for input is then supposed to inform the development of consultations. However, some of these costs such as the payment uplift and levelisation costs have been made since the call for input i.e. on the 23rd February 2024.

How This Problem Can Be Solved: Insight into the specific impacts could be evaluated through consultations. These cost structures could then be changed by Ofgem on the price cap, unless unknown red flags have been identified.

Recommendation 2: Shift policy costs to general taxation:

Details:

- Problem: Policy costs included in both standing charges and unit rates disproportionately affect low-income households.

- Solution: Moving policy costs entirely to general taxation would spread these expenses across a broader tax base, leveraging progressive taxation to reduce the regressive impact on vulnerable consumers.

Current Status: Ofgem closed their call for input on standing charges on 20 January 2024. Call for input is then supposed to inform the development of consultations. The Labour Party, who came to power following the General Election on July 4th 2024, stated in their manifesto that they would work with the regulators to reduce standing charges, however no specifics were given.

How could this recommendation be actioned: Implementing this shift requires legislative changes and alignment with broader tax policy. For implementation this would require active collaboration between the Department for Energy Security and Net Zero (DESNZ) and OFGEM.

Recommendation 3: Revise the ratio of operating costs paid through standing charges versus unit rates:

Details:

- Problem: A significant portion of operating costs is included in the standing charge, leading to high fixed costs for all consumers.
- Solution: Reallocating 72% of gas and 76% of electricity operating costs to unit rates would reduce the financial burden on low-consumption households.

Current Status: Initial discussions and reviews are being conducted by Ofgem. In email exchanges between Ofgem and the Fuel Poverty Coalition, Ofgem stated, "We recognise the impact that shifting some network costs to fixed charges has had on some customers. The time is right to look at what we can do to minimise the impact of this change, particularly on lower-income and vulnerable customers."

How could this recommendation be actioned: Comprehensive data analysis and stakeholder feedback will guide the restructuring of cost allocations to ensure a balanced approach.

Recommendation 4: Reduce standing charge elements of network costs:

Details:

- Problem: Network costs have shifted significantly from unit rates to standing charges since 2022, increasing fixed costs for consumers.

- Solution: Reducing the standing charge elements of network costs by 10%, funded by excess shareholder profits, would lower the fixed portion of energy bills.

Current Status: Ofgem has publicly acknowledged the issue. There have been calls from industry for more urgent reform on DUoS charging reforming with the head of flexibility at Octopus describing Ofgem's 'lack of urgency' as 'extremely alarming'.

How could this recommendation be actioned: Detailed financial modelling and stakeholder consultations are required to implement profit-based funding mechanisms effectively.

Bibliography:

- Ofgem. (2018). Operating Costs. Retrieved from Ofgem
- Ofgem. (2023). Decision on amending the methodology for setting the Earnings Before Interest and Tax (EBIT) allowance.
- Ofgem. (2023). Energy price cap wholesale costs review.
- Ofgem. (2023). Future of Market Stabilisation Charge after March 2024.
- Ofgem. (2023). Network Cost Allowance Methodology Electricity (Annex 3). Retrieved from Ofgem
- Ofgem. (2023). Ofgem energy price cap operating cost allowances review consultation.
- Ofgem. (2023). Press release: Ofgem announces new rules to improve customer service for homes and businesses. Publication date: July 26, 2023.
- Ofgem. (2023). Standing Charges: Call for Input. Retrieved from Ofgem's website.
- Ofgem. (2024). Energy Price Cap - Default Tariff Policy. Retrieved from Ofgem
- Ofgem. (2024). Policy Cost Allowance Methodology (Annex 4). Retrieved from Ofgem
- Ofgem. (2024). Press release: Ofgem sets out prepayment meter expectations to energy bosses. Publication date: January 8, 2024.