Consumer Scotland
Luchd-Cleachdaidh Alba

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by Email to standingcharges@ofgem.gov.uk

Introducing a Zero Standing Charge Energy Price Cap Variant

About us

Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020, we are accountable to the Scottish Parliament. The Act defines consumers as individuals and small businesses that purchase, use or receive in Scotland goods or services supplied by a business, profession, not for profit enterprise, or public body.

Our purpose is to improve outcomes for current and future consumers, and our strategic objectives are:

- to enhance understanding and awareness of consumer issues by strengthening the evidence base
- to serve the needs and aspirations of current and future consumers by inspiring and influencing the public, private and third sectors
- to enable the active participation of consumers in a fairer economy by improving access to information and support

Consumer Scotland uses data, research and analysis to inform our work on the key issues facing consumers in Scotland. In conjunction with that evidence base we seek a consumer perspective through the application of the consumer principles of access, choice, safety, information, fairness, representation, sustainability and redress.

Consumer principles

The Consumer Principles are a set of principles developed by consumer organisations in the UK and overseas.

Consumer Scotland uses the Consumer Principles as a framework through which to analyse the evidence on markets and related issues from a consumer perspective.

The Consumer Principles are:

- Access: Can people get the goods or services they need or want?
- Choice: Is there any?
- Safety: Are the goods or services dangerous to health or welfare?
- Information: Is it available, accurate and useful?
- Fairness: Are some or all consumers unfairly discriminated against?
- Representation: Do consumers have a say in how goods or services are provided?
- Redress: If things go wrong, is there a system for making things right?
- Sustainability: Are consumers enabled to make sustainable choices?

We have identified access, choice, and information as being particularly relevant to the consultation proposal that we are responding to.

Our Response

Consumer Scotland's consultation response does not directly engage with each individual consultation question but instead provides broader feedback on the overall policy proposal.

The reform of standing charges is a significant issue for consumers, as evidenced by the high level of engagement in previous Ofgem consultations on this topic. It is therefore appropriate that Ofgem continues to explore potential reforms to improve the effectiveness of the energy market in meeting consumer interests.

However, we believe that there are broader considerations that Ofgem needs to tackle. Ultimately the regulator needs to determine the overall value of the proposed zero standing charge (ZSC) price cap variant compared with other potential interventions that could be achieved by working with the UK Government, such as a holistic review of existing energy support arrangements and giving a stronger focus to the design and delivery of targeted affordability support.

In this response, we highlight key considerations regarding the design and potential impact of the ZSC price cap variant for consumers in Scotland, illustrated through specific challenges that the policy framework faces.

Review of the Case for Change and Limits of Proposed Benefits

In this section we address questions 1 to 3 of the consultation. We review the proposed case for change and the limitations Ofgem faces in designing and implementing a ZSC price cap variant, the limits of the proposed benefits of the policy proposal, and the wider questions this raises regarding how fixed and network costs are paid for.

Ofgem correctly identifies that the proposed ZSC variant is designed to offer consumers greater control over how they pay for their energy, rather than to deliver financial savings for specific groups. In this context, the policy must be considered according to the parameters Ofgem operates within:

1. network costs must be recovered to maintain and upgrade Great Britain's essential national energy infrastructure;
2. Ofgem's regulatory powers over supplier-consumer interactions are prescribed and limited; and
3. policy decisions must be both practical and fair to all consumers.

Given these constraints, Ofgem is currently limited in what it can achieve in this area. It has rightly recognised that it cannot cross-subsidise between the existing price cap variant and the proposed ZSC variant, as this would raise questions of fairness and could put consumers in vulnerable circumstances at risk of disproportionately higher costs. Equally, given the need to avoid creating a 'missing money' problem for suppliers, it has also recognised that it must recycle any shortfall in the recovery of fixed costs from ZSC consumers into future ZSC

unit prices. However, this may result in seasonal volatility to unit prices on the ZSC variant that makes it financially unsustainable for the majority of consumers.

These constraints are reflected in Ofgem's modelling that the proposed ZSC variant is likely to only benefit a limited group of low-usage consumers at best. At the same time, the creation of a ZSC price cap variant introduces significant risks, particularly for low-income households, disengaged consumers, and consumers in vulnerable circumstances, who may face higher costs or struggle to navigate the additional tariff complexity. Furthermore, the proposed lock-in mechanisms may limit consumer flexibility, compounding the risks for those unable to make informed switching decisions.

While Ofgem's consultation acknowledges some of these risks, it remains uncertain whether they can be effectively mitigated, or whether they are sufficiently outweighed by the potential consumer benefits of reform.

We therefore recommend that:

- Ofgem should further test and pilot any proposed ZSC price cap variant with a limited group of consumers representing a broad range of consumer archetypes,[1] to further test its assumptions and consumer behaviour.
- In light of record levels of household energy debt currently in the market, Ofgem should explore further with the UK Government other options and policy measures that would be of greater value in addressing issues of energy affordability. For example, reviewing how network costs are recovered, and enhancing targeted affordability support, including but not limited to the proposed introduction a market-wide debt relief scheme and proposals to extend the Warm Home Discount scheme for winter 2025-2026.

Proposed Tariff Structures and Impacts

In this section, we address questions 4 to 7 of the consultation. We provide our feedback on the potential impacts that the proposed tariff structures would have and on the assumptions made in Ofgem's proposed tariffs and modelling. We also raise a number of questions about the sustainability of the proposed ZSC price cap variant.

Effects of Seasonal Concentration of Fixed Costs

Ofgem's price cap formulation highlights the seasonal variance in energy use exhibited by typical domestic gas and electricity consumers in Great Britain.[2] For a typical gas consumer, these figures reveal that 75.2-76.2% of annual gas demand occurs between October and March, when heating demand is highest. For a typical consumer with electric heating, 57.7% of annual demand occurs during winter.

Under the existing price cap structure, the fixed costs of the energy system are recovered evenly throughout the year through the daily standing charge, providing a degree of price smoothing for consumers. However, shifting some or all of these fixed costs to the unit rate would exacerbate seasonal cost disparities, removing this smoothing effect and increasing financial pressures in winter.

The weakening or loss of this cost smoothing is likely to present challenges for both suppliers and consumers. Increased winter affordability challenges are particularly concerning for consumers with high essential energy needs and prepayment meter (PPM) consumers, who already face a heightened risk of self-disconnection. While a ZSC may provide cost savings in the summer when demand is typically lower, it would result in a concentration of fixed costs during the winter months, when consumption of both electricity and (in particular) gas spikes. This risks compounding the existing affordability crisis in the domestic energy market, with a number of potential consequences:

- Without adequate budgeting mechanisms or financial support, there would be an increased risk of self-disconnection amongst PPM consumers and greater demand for additional support credit (ASC) from suppliers. This in turn would potentially increase debt costs through the debt allowance for all price cap consumers, unless Ofgem acts to prevent cross-subsidy of price cap allowances in the same way that it is proposing to prevent cross-subsidy of costs between the existing price cap variant and the proposed ZSC variant.
- Record levels of consumer debt already contribute to higher bills for all consumers through the debt allowance mechanisms within the price cap. High levels of personal energy debt can also limit access to supplier affordability schemes and debt relief measures, such as trust funds, where eligibility may depend on a consumer's ability to cover ongoing energy costs and a proportion of their arrears. By intensifying winter affordability pressures, the proposed ZSC model therefore risks further restricting access to these vital support mechanisms for vulnerable consumers.
- A rise in requests for ASC from PPM consumers is likely to be accompanied by an increase in suppliers' operating costs and place additional pressures on customer service, with any deterioration in service levels or increase in costs likely to be felt by all consumers. Third sector organisations which support consumers in vulnerable circumstances, including but not limited to those which can provide financial assistance, are also likely to see a corresponding increase in demand.

Control Preference Assumptions

The viability of Ofgem's proposed price structures depends on a sufficient number of consumers paying more under the ZSC variant than they would under the existing price cap structure. Ofgem assumes that some consumers will be willing to accept higher annual energy costs in exchange for certain perceived benefits of the ZSC model, such as greater control over their payments, particularly during periods of non-use.

However, this assumption regarding "control preference" requires rigorous testing. Ofgem has not provided analysis to substantiate the extent to which consumers prioritise control over cost, nor the proportion of consumers who would actively choose a more expensive tariff based on this preference. While there is limited research directly addressing this specific point, there are reasonable counter arguments that challenge the breadth of this assumption.

Consumer behaviour in selecting energy tariffs and suppliers offers relevant parallels. In both cases, consumers are making choices within the domestic energy retail market and, subject to any lock-in mechanisms, can respond to adverse price signals by switching. While switching rates have declined since the wholesale gas crisis and the subsequent weakening of competition in the energy retail market, they have started to increase as price competition returns to the energy market.[3] It is therefore unclear how many consumers would ultimately prioritise control over cost when fully informed of the comparative expense of the ZSC model versus a lower-cost alternative under the existing price cap. This uncertainty has direct implications for the reliability of Ofgem's modelling.

Given these concerns, it will be important to assess whether there will be a sufficient number of control preference consumers to ensure fixed costs are fully recovered under the ZSC model. If cost recovery falls short in any given period, the recycling mechanism would lead to comparatively higher unit rates in subsequent periods. This could create a compounding effect: as unit rates rise, price signals may prompt an increasing number of control preference consumers to exit the ZSC variant (where permitted), as their preference for control is outweighed by escalating costs relative to the standard price cap. If this pattern persists, it risks undermining the long-term stability of the model, acting against recent efforts to improve the financial resilience of suppliers and exposing less engaged and lower usage consumers to detriment.

Sustainability of Recycling Mechanism

We also have a number of concerns about the fairness and long-term sustainability of the ZSC variant due to the way it distributes fixed costs and its potential market distortions.

Ofgem proposes that any shortfall in fixed cost recovery would be recouped in the next pricing period through a corresponding increase in ZSC unit rates. There is a risk that this introduces price instability, particularly if the unit rate is increased in the colder months where it would compound the seasonal concentration issues highlighted above. This is likely to be particularly problematic for many PPM consumers.

The proposed ZSC price cap variant is most financially beneficial to low-usage consumers, while average or higher usage consumers may avoid the tariff to minimise annual costs, as Ofgem has modelled. This unbalanced participation leads to a 'missing money' problem, where the revenues recovered from consumers towards the fixed costs of the energy system are less than the sum of those costs. In particular, this jeopardises the ability of suppliers to efficiently pass the relevant share of those costs to the gas and electricity network operators as networks' charges fall due. Ofgem proposes to mitigate this problem by recycling the relevant shortfall into future ZSC unit prices. However, as the unit price rises, it would be reasonable to assume that more average or higher usage consumers would move off the ZSC (when possible, depending on the lock-in policy), which in turn would perpetuate a cycle of rising costs for those consumers remaining on the ZSC price cap variant.

We therefore recommend that Ofgem further examines how persistent unbalanced participation would affect the long-term sustainability of the ZSC variant under the price cap.

Effects of Proposed Implementation

In this section, we address questions 8 to 13 of the consultation, engaging with the proposed implementation features of the proposed ZSC price cap variant, the challenges it faces, and necessary considerations Ofgem must have to maintain consumer protection.

Ensuring Consumers are Sufficiently Informed

Ofgem must ensure suppliers proactively provide clear, accurate and useful information to consumers about the benefits, risks and complexities of the respective price cap variant tariffs. Ofgem research highlights that low levels of consumer awareness and understanding of energy tariffs, as well as perceived complexity of tariffs, leads to reduced engagement in the energy market and potential financial disadvantage.[4]

These risks are compounded when considered with other policy design proposals, such as a concentration of costs (as previously discussed), lock-in periods that may prevent consumers from responding to price signals and switching to a more affordable tariff, and defaulting to a ZSC price cap variant as opposed to the cheapest price cap variant for the consumer at the point of fixed term tariff expiry (discussed further below).

An insufficiently informed consumer may experience considerable financial harm if they are not aware of these complex factors affecting price and consumer choice, as well as any complex tariff structures like rising or falling blocks.

Ofgem must consider the benefits of their proposed complex tariff structures against a straightforward, simplified structure, that empowers consumers to understand and compare tariffs, reduces confusion and supports high levels of consumer engagement.

If Ofgem takes forward these proposals to a pilot, high levels of supplier transparency are required in relation to all tariff variants offered under the price cap. We recommend that suppliers should be expected to provide detailed and accessible information about the tariff components, along with costs and benefits, to enable consumers to make informed decisions and control their usage, in line with the policy intention. Ofgem should also seek appropriate assurance from suppliers that their customer communications in relation to the costs and benefits of each price cap variant at all Key Prompt Points consistently meet this high bar.

As Ofgem has recognised, there is a risk of revenue shortfalls for suppliers in recovering fixed costs under the proposed ZSC variant. Consumer awareness and active selection can help mitigate this risk and lessen shortfalls. If fully informed consumers know that a ZSC tariff means higher unit prices, they will, where possible, anticipate that winter bills could be markedly higher. Such informed consumers will know that if they use more energy, they will pay more of the infrastructure costs included in their unit costs. A well-informed consumer can prepare and budget for increased seasonal consumption, or as direct debit consumers regularly do, opt into an equalised payment plan. Crucially, those informed consumers who find such seasonal volatility unmanageable, can choose to avoid the ZSC option and lessen any shortfall caused by underpayment and protect themselves from falling into debt.

Risk to Default Tariff Cap Protections

While the proposals aim to provide consumers with more flexibility in their energy billing, there are potential consumer protection implications by establishing two default tariff caps.

The existing default tariff cap protects consumers by placing them automatically on the "cheapest evergreen tariff" their supplier offers after a fixed term contract expires. This ensures that they are protected from excessive prices even if they do not actively engage in the energy market. As of October 2024, the overall proportion of domestic electricity customer accounts on default tariffs (and not paying by PPM) was 71.5% for electricity and 71.9% for gas,[5] a considerable proportion of the domestic energy market. These consumers are relatively shielded from financial price shocks, and these arrangements can be particularly important for protecting consumers in vulnerable circumstances, who may experience significant challenges when navigating complex tariff structures.

Under the current proposals, consumers who opt for a ZSC fixed-term tariff would, upon their contract expiring, be automatically moved to a default tariff that aligns with their choice of variant at the start of that contract, i.e. the default ZSC variant. This would occur even when an alternative default tariff type would be cheaper for a consumer. This proposal could inadvertently lead to consumers incurring higher costs, compared to a system where consumers are defaulted to the most affordable option available as provided in the existing protections in the existing default tariff cap.

Under the existing default tariff cap framework, consumers will be placed on the cheapest standard variable tariff their supplier offers regardless of the level of engagement at the time their contract expires. However, with the proposed changes, consumers would need to track not only the expiration of their contract, but also whether their initial tariff choice, which may have been made 12 to 18 months prior depending on their contract, still aligns with their best financial interests today. If they do not engage at the end of their contract, consumers may therefore end up overpaying compared to the current system. This may also have a distributional effect, with consumers who are less able to engage with the market at the end of their tariff, such as digitally excluded consumers, being at more risk of financial disadvantage. The proposals therefore risk overriding this key protection for consumers, regardless of their level of engagement in the market.

Given that the vast majority of consumers currently remain on the existing default tariff cap for both electricity and gas, we recommend Ofgem undertakes further work to examine the extent to which consumers may be worse off compared to the current default tariff structure. If Ofgem undertakes any trial or phasing of a ZSC price cap variant, it should also undertake a distributional analysis of its effects.

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[1] Ofgem (2024) Ofgem energy consumer archetypes update 2024
[2] Ofgem (2025) Energy Price Cap Default Tariff Levels, Annex 2, Table 3b
[3] Ofgem (2025) Retail Market Indicators: Number of Domestic Customers Switching Supplier by Fuel Type (GB)
[4] Ofgem (2024) Consumer Impacts of Market Conditions Survey: Wave 5
[5] Ofgem (2024) Retail Market Indicators: Number of Domestic Gas Customer Accounts by Supplier (excluding pre-payment customers): Standard Variable, fixed and other tariffs (GB)