Citizens Advice Response to Ofgem's "Energy system cost allocation and recovery review"

Citizens Advice
September 2025

Executive summary

Citizens Advice welcomes the opportunity to respond to Ofgem's energy system cost allocation and recovery review. We recognise that the significant investment to move to a clean energy system should reduce bills over the longer term by reducing dependency on imported gas, but will also impact the make-up of consumer bills over the coming years. Citizens Advice supports Ofgem conducting this review to ensure that energy system costs are both allocated and recovered efficiently and fairly. However, it's vital that this is simply the first stage of a broader process of work between Ofgem and the Government to consider the full range of options for managing energy costs on bills.

Ofgem has proposed a new framework to review how energy costs are allocated and recovered, with the goal of creating a fairer and more efficient system for consumers. The framework assesses options based on their fairness, efficiency, and practicality, as well as their impact on affordability and the transition to net zero. It's important that in applying this framework Ofgem builds on the comprehensive work done in earlier reviews like the Targeted Charging Review (TCR), which made changes to ensure consumers can't avoid paying a fair share network costs.

Options for amending domestic cost allocation and recovery

Ofgem has set out a range of possible options in its review. We recognise these are not mutually exclusive and that options could be combined to deliver different overall outcomes. Based on our assessment we think there are some options Ofgem should consider, alongside government, in the next stage of its review, while others should be ruled out.

Options to Explore Further

- **Ability-to-Pay (AtP) options:** These options could align with consumer desires for a "fair system" and offer better protection for vulnerable consumers. This could include looking at options that replicate progressive tax systems, with charges varying according to the billpayers'

annual income or housing wealth. We recognise this is a more radical option, and presents issues both relating to data and the legal role of energy suppliers and Ofgem. One such issue is the potential for imperfect targeting, given limitations on the data held by government regarding household wealth, and lack of robust data on household income.

- **Capacity Charges:** Introducing a carefully designed capacity charge could also have the ability to be an efficient and fair way to recover network costs. This could ensure consumers with high-consuming electric technologies, like electric vehicles (EVs) and heat pumps, to pay their fair share of network upgrades. There are significant challenges around defining "capacity" without penalising certain households (e.g., those with storage heaters with large loads). Capacity charging would likely need to rely on a combination of factors (e.g. potential capacity *plus* Time of Use), with the addition of robust safeguards for consumers who could still face an unfair increase in costs, even under a hybrid model. While this approach could also potentially disincentivise some low-carbon technology adoption, we note that EV charging would still remain cheaper than petrol or diesel, even with a moderate charge.

We would emphasise the need for a two-part tariff as a minimum requirement:

- **Cost-reflective element:** This part would be designed to influence consumer behaviour and improve system efficiency by sending accurate signals about energy use e.g. Time of Use (ToU) units.
- **Cost recovery element:** This part would be designed to recover overall system costs fairly without influencing consumer behaviour. This can ensure that paying a fair share of fixed costs cannot be avoided and is where options like AtP could be applied.

Getting this allocation right is necessary to ensure an acceptable minimum level of cost-reflectivity and system efficiency. Choices can then be made within this allocation to improve fairness without undermining system efficiency. For instance, applying AtP options to the cost recovery element, which is currently captured by standing charges, should have no impact on the cost-reflective element and so would not impact system efficiency.

We note that more wholesale and network ToU charging will be in place for suppliers from 2027, following the implementation of market-wide half-hourly

settlements, but with no clarity on if/how this will be passed through to consumers on default tariffs who make up the majority of the market.

Options to Discard

We believe that certain options should be ruled out as they fail to meet the assessment criteria:

- **Rising Block Tariffs (RBTs)**: RBTs, where the price per unit of energy increases with usage, do not meet the proposed assessment criteria. Research[1][2] shows they are unfair, as they disproportionately raise costs for millions of low-income and disabled households. We also view them as inefficient and a barrier to achieving net zero, as they would discourage the use of higher-consuming but environmentally-friendly technologies like heat pumps and EVs.
- **Higher/only unit rate tariffs:** We also believe that options that arbitrarily increase unit rates - including those that recover all costs through a single unit rate - should be discarded. These tariffs would unfairly penalise consumers with high energy usage, including those with traditional electric heating or need to maintain a specific temperature for health reasons.

Both options could also undermine the aims of the TCR by enabling some more affluent consumers - like those with solar power and batteries or second homes- to avoid paying a fair share of network costs.

Framework for assessing options

Ofgem has introduced five criteria - Efficiency, Fairness, Practicality, Support for Net Zero, and Economic Growth - to create a framework for assessing how to allocate energy system costs. We welcome these criteria as they provide a good starting point for a structured assessment.

In terms of the framework's application, we support an approach that begins by identifying the most **efficient** solution, followed by testing that option against the remaining criteria. This provides a clear analytical foundation from which

[1] Citizens Advice (2023) Fairer, warmer, cheaper: new energy bill support policies to support British households in an age of high prices
[2] Public First (2025) Closing the fuel poverty gap: A plan for targeted energy support

trade-offs can be assessed. This approach also reflects Ofgem's statutory duties and aligns with good regulatory practice. We acknowledge, nonetheless, that balancing the different criteria will inevitably require trade-offs, for example:

- Measures that enhance efficiency - such as cost-reflective tariffs - may raise fairness concerns, particularly if they disproportionately affect vulnerable or fuel-poor consumers.
- Some criteria, such as fairness, are more subjective and less easily quantified than others, and may require the use of distributional impact assessments, archetypes, and other analytical tools. However, we note that these tools have limitations and gaps - for example, in relation to consumers on heat networks - which should be acknowledged and addressed where possible.

Role of government in the next stage of the review

It's also important to note that a range of other interventions that can mitigate challenges around fairness and net zero under the current charging arrangements are available, via policy levers that the government controls in whole or part. These changes could be implemented more quickly, and may avoid some of the potential risks with more radical charging reforms, including:

- Better targeted bill support, to offset the impact of rising standing charges for people on lower incomes, and more support with energy efficiency to lower bills overall.
- Moving policy levies off electricity bills and onto taxation. This would reduce bills, lead to fairer cost recovery and improve incentives to switch to low carbon heat. Alternatively, these costs could be rebalanced onto gas bills, as long as there is adequate support for people who use gas and struggle with extra costs.
- Progressing with the review of default arrangements and price protection to determine the extent to which time of use price signals will be passed through to disengaged consumers following the introduction of market-wide half hourly settlement in 2027.

This review needs to be one part of a broader process with government to look at how to bring down energy bills, finding the best overall solution for consumers.

Consultation questions

1. What other examples or evidence from relevant sectors or international energy markets should we consider as part of our review?

Beyond what's already been mentioned in the consultation, we recommend that Ofgem considers how the following examples could inform future changes to energy pricing:

- **Water:** for unmetered customers water and sewerage costs are based on Council Tax (CT) bands (and reflected in council tax bills) in Scotland, while any discounts or exemptions received for CT are also applied to water and sewerage. The equivalent for England are based on rateable values (a historic assessment of the annual rental value of a property). These approaches act as an ability to pay approach, based on the value of the home.
- **New Zealand:** low-user fixed charge (LFC) tariffs were introduced to reduce bills for consumers who use less than the average amount of energy, by charging a lower daily fixed fee and a higher per-unit (kWh) rate. A subsequent Electricity Price Review found that LFC had been poorly targeted, and had led to several 'unintended consequences'[3]. Such consequences include worsening energy hardship for some households, and promoting inefficient choices for new technologies (e.g. rooftop solar and electric vehicles). The Review also found that LFC tariffs had increased pricing complexity, making it more difficult for consumers to shop around. These tariffs are currently being phased out of the market.
- **Netherlands:** a capacity subscription tariff requires a consumer to subscribe to a specified level of network capacity - and if this is exceeded, they either incur an additional fee, or are moved to a higher capacity subscription for the next settlement period[4].

Ofgem should apply learnings from the examples mentioned in the consultation, particularly Australia, which demonstrates that a blanket application of retail ToU tariffs is not in the best interests of consumers. This approach

[3] Ministry of Business, Innovation and Employment (2019) Electricity Pricing Review
[4] Hennig, R. J., Jonker, M., Tindemans, S. H., & De Vries, L. (2020) Capacity Subscription Tariffs for Electricity Distribution Networks: Design Choices and Congestion Management

demonstrates the need for appropriate safeguards to ensure households with high (and unavoidable) peak usage are not penalised.

2. What options for amending domestic cost allocation and recovery should we explore in more detail and why? What options should we rule out at this stage and why?

Ofgem has proposed a sensible assessment framework for approaching this review into the allocation and recovery of costs. Applying these criteria, at a high level, has allowed us to draw some clear conclusions that will enable the review to be more focused:

- Rising block tariffs fail against most of Ofgem's assessment criteria and should be ruled out at this stage
- Ability to pay options have the potential to score well against Ofgem's criteria and so should be explored further, particularly in relation to policy costs
- Standalone options (such as recovering costs through only a standing charge or only a unit rate) also fail against Ofgem's criteria and so any solutions should have at least two-parts as a minimum.

Ofgem is right to begin the review with a focus on ensuring system efficiency, and so generally lower bills, by assessing cost-reflectivity. It is important to be clear which costs vary by how much energy is used, and to what extent, and which costs are genuinely fixed. This allows the appropriate allocation of costs between:

- Elements of the tariff which can be designed to send a signal to consumers (cost-reflective)
- Elements that are simply about cost recovery (and so should be designed not to send a signal to consumers).

Getting this allocation right is necessary to ensure an acceptable minimum level of cost-reflectivity and system efficiency. Choices can then be made within this allocation without undermining system efficiency. For instance, e.g. applying AtP options to the cost-recovery element, which is currently captured by standing

charges, should have no impact on the cost-reflective element and so would not impact system efficiency.

Our initial assessment is that the current tariff structure of unit rates and standing charges, following the Targeted Charging Review[5], is broadly reasonable in terms of allocating costs between cost-reflective elements and cost recovery elements. Our key observations are:

- Ofgem (and government) should review how policy costs are recovered. These are generally recovering an amount that is fixed (i.e. does not vary with usage) and so should not be recovered via unit rates.
- The Ofgem review should consider both policy costs that are already added to energy bills and policy costs that are expected to be added in future (for instance in relation to hydrogen, carbon capture and new nuclear).
- The allocation of network costs should be expected to be robust as it follows an exhaustive Targeted Charging Review that applied similar principles to those proposed. This review should not duplicate or re-run the TCR. The separate reviews[6] into the cost-reflective elements of electricity network charges are the right way to assess any required adjustments to network charges.

This means a further option that should be included is to maintain the current approach, certainly with regards to the overall split between fixed and variable charges, and then make targeted interventions to resolve outcomes that are viewed as unacceptable.

These could sit within the terms of this call for input. For example:

- ToU elements could be introduced to improve cost-reflectivity and enable effective price protection.
- Some type of capacity element could be introduced for domestic energy bills to ensure everyone pays a fair contribution.

[5] Ofgem (2019) Targeted Charging Review decision
[6] Ofgem (2025) Reforming network charging signals; Distribution Use of System Charges: Significant Code Review

- Ability-to-pay elements could be introduced to the standing charges to improve fairness without impacting system efficiency.

We recognise that design considerations may sit outside of the terms of the call for input and so this review should be considered as one part of, with government, finding the best solution for consumers. For example:

- Targeted bill support could be designed to address concerns around standing charges
- The distortive impact of misallocated policy costs could be addressed through well designed levy rebalancing.

With all this in mind, we believe there are a number of options Ofgem could explore in more detail and some that can be ruled out.

Options to explore further

We recommend that Ofgem explores whether some costs could be recovered more fairly, particularly policy costs which are currently recovered via both standing charges and unit rates. These costs arise because of decisions by government to support renewables and interventions to support households on lower incomes. These could have been funded via taxation, which is more progressive, and adjusting how they are recovered should not affect system efficiency.

This could include looking at charging options that vary according to the billpayers' annual income or housing wealth.

- Fairness: Ofgem research shows that consumers want a ‘fair system’, whilst expressing a strong desire to protect consumers in vulnerable circumstances. Applying ability to pay (AtP) metrics to policy costs could ensure fairer distribution across households, while potentially shielding consumers experiencing financial hardship from disproportionate impacts when such costs are passed on to consumers through standing charges. For consumers who are also in receipt of the Warm Home Discount, recovering policy costs regressively via standing charges risks offsetting the intended benefit, reducing the overall impact of affordability interventions.

- Practicality: implementing AtP metrics into the system could be less complex from a consumer perspective in comparison with other options. Data matching could alleviate the need for input on the part of consumers, allowing for an automated distribution of costs. However, an automated data-matching process could lead to outcomes for some consumers that could be seen as unfair - for example, if people living in higher council tax bands but with low incomes pay more.
- Net zero: because policy costs are disproportionately recovered from unit rates on electricity it is expensive to switch from gas to electricity for heating. This option could therefore support net zero by enabling more policy costs to be moved off unit rates to an AtP-linked standing charge, which policymakers could be confident would be recovered fairly.

We recognise this presents issues both relating to data and the legal role of energy suppliers and Ofgem. One such issue is the potential for imperfect targeting, given limitations on the data held by government regarding household wealth, and lack of robust data on household income. However, a system based on council tax bands could be possible, given the similar application in water and the fact that this is linked to an enduring characteristic of the meter point which won't be affected by change of tenancy.

We note that consumers expressed that affordability was a top priority for them via Ofgem's research. Applying AtP metrics to policy costs could perform as an affordability intervention, resulting in lower standing charges for those in financial hardship - with potential reductions for consumers who narrowly miss out support via other affordability interventions.

We also recommend Ofgem explores whether introducing a capacity charge would be a more efficient and fair way to recover network costs. This could ensure those with high-consuming electric tech like EV pay their fair share of costs.

There is already some capacity charging for non-domestic customers in the UK and international examples, as highlighted by Ofgem.

Our assessment of this approach against the proposed criteria is outlined below:

- Efficiency: if well designed, a capacity charge could encourage load shifting, reducing reliance on peak generation and in turn, reducing overall system costs.
- Net zero: if well designed, a capacity charge could incentivise flexible demand and in turn, support decarbonisation. However, there is also the risk that a capacity charge could disincentivise the take up of low-carbon tech given it would likely lead to costs rising for consumers in ownership of heat pumps and other high-load tech. Although, for those with EV chargers - which are the biggest driver of measured capacity - home charging would still be cheaper than petrol/diesel with a moderate capacity charge.
- Practicality: a capacity charge is moderately practical, given it would likely require smart meters and enhanced consumer understanding of "capacity".
- Fairness: how far a capacity charge meets the principle of fairness would depend on its design. Without the appropriate safeguards, this approach risks disproportionate outcomes for households with high peak usage or high-load tech.

We note the challenges around defining capacity, and in turn, ensuring particular subsets of consumers aren't exposed to any undue harms. For example, using ToU as a proxy for capacity could be unfair to households who are unable to shift their usage away from peak periods. Likewise, using maximum demand / contracted capacity would expose consumers with storage heaters to higher costs. A hybrid model of capacity charging (e.g. potential capacity *plus* ToU), similar to those seen in international markets, may still require exemptions for particular households.

Options to discard

We strongly recommend that Ofgem rules out Rising Block Tariffs, given these do not meet the proposed assessment criteria:

- Fairness: our research found that 1 in 4 of the poorest households could lose out under RBTs[7]. Subsequent research by Public First for Scope

[7] Citizens Advice (2023) Fairer, warmer, cheaper: new energy bill support policies to support British households in an age of high prices

projected that over a third of low-income and disabled households would see their bills increase[8].

- Efficiency: due to their structure, RBTs would reduce incentives to use electricity at times when lots of renewables are available, increasing the cost of the overall energy system.
- Net zero: RBTs would disincentivise consumers from switching to heat pumps and EVs, given costs would rise for those in ownership of such tech.
- Practicality: given this will be challenging to implement in households without smart meters.

We also believe that one-part approaches (e.g. those that propose recovering fixed costs entirely through unit rates) should be ruled out. Shifting fixed costs entirely to unit rates would expose consumers with high energy usage to increased costs - and we know that some households cannot control the level of energy they consume. This is especially true of consumers who have traditional electric heating, and households who need to keep their homes at a certain temperature for medical reasons.

Ofgem should only explore approaches that comprise two or more elements. This means a further option that should be included is to maintain the current approach, with regards to overall split between fixed and variable charges.

3. How would changes to the underlying rules and approaches for allocating and recovering system-wide costs be expected to translate into the tariffs offered by suppliers?

We recognise that some of the changes proposed will introduce more complexity into the market than others. This is partially why we do not support Rising Block Tariffs, the structure of which would be challenging to convey to consumers.

We also recognise that any change will create winners and losers. As mentioned, some designs for capacity charging could unfairly penalise households who cannot shift their usage away from peak times.

[8] Public First (2025) Closing the fuel poverty gap: A plan for targeted energy support

We stress that changes to the system will need to be conveyed to consumers in terms of their impact on bills. Given there is no 'one-size-fits-all' approach contained in the proposals, consumers will need to prepare accordingly, based on an assessment of how changes affect their unique situation. Suppliers will need to provide a detailed breakdown of how costs are likely to change on a case by case basis - at the earliest opportunity - allowing consumers the time to explore different options (for example, ToU, alternative energy arrangements etc). The addition of archetypes may also be useful, to demonstrate which types of households are likely to see prices fall or rise.

Tariff changes will need to be communicated in the simplest of terms. We note that there would also need to be a level of standardisation across the sector, to ensure that consumers are able to compare tariffs.

More targeted interventions will be required for consumers who could find themselves worse off. We reiterate that RBTs increase the need for targeted support significantly, which is not possible to deliver under current data matching parameters. Modelling in our research has projected that even with £2bn in targeted support in place, one in five of the poorest households will still lose out.

Current default arrangements and the design of the price cap would prevent some of the charging options being passed through to customers who haven't made an active choice. Default tariffs for most customers[9] are currently flat rate so prices don't vary with time of use, which prevents any time of use charging being passed on. Ofgem already recognises that this will create challenges following the introduction of market-wide half hourly settlement, which time of use charging for other elements could exacerbate. The ability to maintain meaningful price protection for those on default tariffs should be part of the practicality assessment.

Arrangements would need to differ if a charge based on ability to pay or capacity were added to the bill, as these would be tailored to different customers and properties. To achieve the intended outcomes these options would likely require an explicit 'pass-through' of some costs to specific consumers as a separate line item in their bill, rather than the current system where suppliers get more choice over how costs are allocated between customers within their tariff structures.

[9] Those without a traditional time of use meter such as Economy 7/10

4. What options for amending non-domestic cost allocation and recovery should we explore in more detail and why? What options should we rule out at this stage and why?

Our response is made with reference to small and microbusiness consumers, as this is the limit of our statutory remit. Citizens Advice does not have a specific proposal to put forward for amending non-domestic cost allocation and recovery, but we are interested in hearing more from Ofgem on this topic, and will engage with any future proposals. Instead, we have chosen to lay out several key principles and barriers that Ofgem should keep in mind when considering a variety of options for non-domestic cost allocation.

Any decision made with regards to non-domestic cost allocation and recovery should be aligned with the approach taken for domestic customers where possible. Small and microbusiness consumers interact in the retail market in a manner much more similar to domestic consumers than to larger businesses. These businesses are often both time and resource-poor, and do not always have the expertise or dedicated staff to both understand and engage with changes made to energy market regulation.

Any options developed for non-domestic consumers should be assessed against the same framework as for domestic consumers. Consideration of efficiency, fairness, practicality, net zero, and economic growth are just as important for non-domestic consumers as for domestic consumers.

Economic growth could be a primary consideration when considering options for businesses. Small businesses represent an estimated 98% of the UK business population, and represent 47% of employment and 36% of turnover in the UK private sector.[10] But high costs are threatening the viability of many small businesses; nearly 1 in 5 say they expect to close by the end of the year if economic conditions do not improve.[11]

The net zero aspect of the framework of assessment is also vital. Small businesses account for between 43-53% of business greenhouse gas emissions, but research from the Federation of Small Businesses indicates that less than

[10] UK Small Business Statistics, Federation of Small Businesses (2024)
[11] Spring Statement - what does it mean for small businesses? Simply Business (2025)

one quarter of businesses expect to decarbonise by 2050.[12] This is not due to a lack of interest - research commissioned by Citizens Advice indicates that non-domestic consumers are very interested in transitioning to net zero, with 67% of surveyed businesses indicating that they were either moderately or highly committed to achieving net zero emissions.[13] However, 71% of respondents believe that the complexity and costs of switching to sustainable energy are major barriers for small businesses.[14] Any options pursued for the re-allocation of energy costs for non-domestic consumers should prioritise changes that enable non-domestic consumers to participate in - and benefit from - the net zero transition.

As with domestic consumers we recognise there are likely to be benefits from greater time of use charging, but that this could cause challenges for some businesses. Research from Citizens Advice indicates that businesses do not understand whether energy flexibility would fit their day-to-day operations. Some businesses such as restaurants may find it very difficult to flex their energy usage due to their core business hours reflecting peak times for energy usage. Smart technologies which store energy during off-peak periods, for use when demand is highest, have high upfront costs and potentially uncertain returns and small businesses may lack space for energy storage or be unable to install because they rent rather than own premises. This means non-domestic consumers are hesitant to engage with them.[15] If Ofgem sees a greater role for ToU charging for smaller businesses there will need to be careful communication to explain the changes, and how to benefit from them, to smaller non-domestic consumers.

Regardless of which options Ofgem chooses to pursue for further consideration, there are a number of barriers to implementing changes in the non-domestic market which must be considered.

Many options presented for cost recovery rely on consumers having a smart meter, and the ability to engage in the flexibility market. Amongst small

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[12] New Growth: How to support small businesses to cut carbon and costs on the road to Net Zero (2025), Federation of Small Businesses (2025)
[13] Small and micro businesses experiences of the energy retail market, Yonder for Citizens Advice (2024)
[14] Small and micro businesses experiences of the energy retail market, Yonder for Citizens Advice (2024)
[15] Time on side: making energy flexibility work for small businesses, Citizens Advice (2025)

businesses, the smart meter rollout has been patchy. While DESNZ data shows that 61% of small businesses have smart meters, research from FSB has found that only 39% of small businesses report having a smart meter.[16] This indicates that small businesses may not have the requisite expertise to know what type of meter they have. Research from Citizens Advice indicates that, of small businesses with a smart meter, over three quarters reported receiving estimated bills at least some of the time, indicating that many are not benefiting fully from the technology.[17]

In addition, many small businesses operate from rented premises, in which they may share access to a meter with other businesses or domestic properties, or may not be able to access their meter at all. There are also structural issues for businesses operating from rented premises, as they often cannot make the physical changes to the property necessary to engage in new flexible products - for example, commercial heat pumps.

Underpinning the hesitance of some businesses to engage in this market is a lack of trust on the part of businesses with regards to suppliers and third party intermediaries, like brokers. Recent and planned improvements in protection - alongside better access to advice and improved communications - should help overcome some of these challenges, but only if businesses feel the benefits of a better functioning market and are more confident to engage with the market and their energy usage.

5. Should we consider alternative methods for splitting network costs between domestic and non-domestic consumers? If so, what methods should we consider and why would these alternative methods benefit consumers?

Ofgem considered this extensively as part of the Targeted Charging Review and completed a thorough and robust analysis against a similar set of principles as proposed here: fairness, cost-reflectivity and minimising distortions.

[16] New Growth: How to support small businesses to cut carbon and costs on the road to Net Zero (2025), Federation of Small Businesses (2025)
[17] Small and micro businesses experiences of the energy retail market, Yonder for Citizens Advice (2024)

Ofgem decided to **split network costs on a net volume basis** for a number of reasons:

- Fairness - Stops wealthier/larger consumers from avoiding costs and shifting the burden to others.
- Cost-reflectivity - Residual costs don't vary with usage, so charging per kWh is not justified.
- Reduces distortion - Removes incentives to game the system through behind-the-meter tech.
- Supports electrification - Doesn't penalise consumers for using more electricity to decarbonise.
- Simplicity - Easier to implement, predict, and explain.

These reasons remain valid, and the TCR analysis can still be relied upon. Therefore, we do not see any strong evidence to justify reviewing again the split this time and doing so would likely repeat previous work without changing the outcome.

We note that some businesses have seen higher fixed costs as a result of the TCR. While this is a foreseen consequence of the TCR, it may also discourage those businesses from electrifying their processes. We encourage Ofgem to work with the UK government on proposals to improve the business case for electrifying non-domestic processes.

6. What do you think of the five criteria we have proposed to assess and the descriptions we have provided for their scope? How should we balance the trade-offs between these?

We welcome the five criteria proposed by Ofgem - Efficiency, Fairness, Practicality, Support for Net Zero, and Economic Growth - as a well-rounded framework that captures the key objectives necessary for a sustainable and equitable energy system cost allocation. The descriptions provided for each appear broadly sensible and offer a useful starting point for structured assessment.

In terms of the framework's application, we support an approach that begins by identifying the most **efficient** solution, followed by testing that option against the remaining criteria. This provides a clear analytical foundation from which trade-offs can be assessed. This approach also reflects Ofgem's statutory duties and aligns with good regulatory practice.

However, we acknowledge that trade-offs between criteria are inevitable, and the process for navigating them must be transparent and robust. For example:

- Measures that enhance efficiency - such as cost-reflective tariffs - may raise fairness concerns, particularly if they disproportionately affect vulnerable or fuel-poor consumers.
- Some criteria, such as fairness, are more subjective and less easily quantified than others, and may require the use of distributional impact assessments, archetypes, and other analytical tools. However, we note that these tools have limitations and gaps—for example, in relation to consumers on heat networks - which should be acknowledged and addressed where possible.

On practicality, we believe it is important to distinguish between what is technically feasible and what may be politically or institutionally constrained. For example, data-sharing requirements might be achievable in principle but politically difficult to implement. Ofgem should consider its own remit carefully and be clear about where coordination with government or other institutions is required.

We also encourage Ofgem to reflect on how this framework compares with that used in previous cost allocation exercises, particularly the Targeted Charging Review (TCR). Since similar criteria were also used in that context (fairness, cost-reflectivity and minimising distortions), it would be valuable to assess whether the challenges experienced since then—particularly around stakeholder acceptability and perceived fairness—could re-emerge under the new framework.

These trade-offs could also be managed by, and will be affected by, the policy levers that the government controls, including:

- Better targeted bill support, to offset the impact of rising standing charges for people on lower incomes, and more support with energy efficiency to lower bills overall.
- Moving policy levies off electricity bills and onto taxation. This would reduce bills, lead to fairer cost recovery and improve incentives to switch to low carbon heat. Alternatively, these costs could be rebalanced onto

gas bills, as long as there is adequate support for people who use gas and struggle with extra costs

This review needs to be one part of, with government, finding the best overall solution for consumers.

7. What evidence should inform our options assessment? You are encouraged to share information, analysis and evidence with Ofgem to inform our assessment.

Citizens Advice has recently conducted quantitative research on standing charges. The findings of this research could help to inform options assessment, looking at approaches and consumer groups the regulator the public feel Ofgem should prioritise when distributing energy costs. The research also looks at the concept of 'fairness' around a lot of the options proposed in the consultation. We will share this research with Ofgem to help inform the next phase of the review.

8. What are the main trade-offs between our proposed assessment criteria? What are the main positive interactions?

The main consideration between the proposed assessment criteria is the balance between efficiency and fairness and the sequence in which those two principles are applied in policy design. We agree with Ofgem's approach of focusing on system efficiency first and then considering how to address any unfair consequences of that approach. While an efficient outcome may have unfair impacts, these can often be addressed through external mitigations—such as targeted bill support—particularly in areas like affordability. In contrast, starting with a fair but inefficient outcome is much harder to correct later, reinforcing the argument that efficiency should be the starting point for policy design as it is more practical and flexible.

However, not all fairness issues can be mitigated externally, and fairness considerations need to be more directly embedded in regulatory decisions. This highlights the importance of understanding where Ofgem can act independently, and where coordinated action with the government is required.

Alongside this, we would like to raise some concerns regarding cost-reflectivity, particularly in relation to future flexibility reforms. While some compromise on cost-reflectivity may be acceptable for fairness reasons, we are opposed to pricing structures that distort cost signals and drive higher system costs as a result. These distortions move beyond regulatory discretion and into the realm of social policy, which could undermine long-term system efficiency and resilience.

9. Do you agree we should consider impacts up to 2035?

We agree that Ofgem should consider impacts up to 2035 as a minimum. Given the amount of new energy infrastructure being built and the timeframes required to pay for this, it is vital to design policy interventions that avoid short-term fixes and promote durable, sustainable outcomes. We encourage Ofgem to use comprehensive scenario analysis and robust modelling to capture uncertainties and risks over this period, in order to better align cost allocation and recovery mechanisms with usage patterns and system needs.

In order to decide on the appropriate timelines, we suggest that Ofgem take into account the timelines used in other policy areas, such as the TCR, which analysed the impacts to 2040. An equivalent period for this review would be up to 2045. This would allow Ofgem's review to consider the appropriate allocation and recovery of costs for evolving areas such as building a hydrogen grid, hydrogen blending, gas decommissioning and gas disconnections.

While we support extending the analysis period to 2040 or beyond, we also recognise that extending the analysis period—especially over 10 years or more—inevitably carries greater risk and uncertainty of unforeseen shocks and structural changes over time. To address this, we recommend that any long-term assessment be underpinned by robust scenario planning and an adaptive approach to policy design. This approach will help ensure that the framework remains resilient and relevant as circumstances evolve. We also see a clear opportunity to apply lessons learned from past initiatives to strengthen both current and future decision-making.

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