



Department for  
Energy Security  
& Net Zero

# Future default tariffs

Call for evidence

Closing date: 22 April 2024



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# General information

## The role of default tariffs

**Default tariffs are the deals that consumers move onto once a contract expires or if they have yet to proactively choose a tariff.** To ensure that households can continue to secure the energy they need without disruption, all suppliers are currently required to offer these types of tariffs.

**Default tariffs serve a specific purpose.** A functioning market should provide all consumers with a range of deals that enables them to tailor what they buy to meet their needs. Default tariffs are about setting the general starting and return point for groups of consumers with shared circumstances. We believe default arrangements should setup a consumer to do well and not make unrealistic and unreasonable demands. Default tariffs therefore need to be safe universally for people in different circumstances, which means they are unlikely to be as valuable to consumers as a deal which has been tailored for their needs.

**Currently default tariffs dominate the retail energy market.** Due to changes to gas prices and supplies resulting from Russia's invasion of Ukraine, and the presence of a default tariff cap, there are currently few competitive tariffs to engage with and so an unprecedented ~86% of households are on default tariffs.<sup>1</sup> Although this proportion is beginning to fall as wholesale costs stabilise and fixed term deals return to the market, it is likely that most households will continue to rely on default deals for many years.

## The scope of this call for evidence

**The purpose of this call for evidence** is to explore how the type and price of default tariffs may evolve and test out some principles that could help us build the fairest credible ways forward for different groups of consumers.

**We recently published a call for evidence on innovation in the retail market.** Several stakeholders noted the possibility that default tariffs – the deals through which most households currently pay for energy – may change in future. We agree that regulations may be needed to prepare for and keep pace with those changes.

*“MHHS (Market-wide Half Hourly Settlement) may also affect ‘standard’ tariffs offered by suppliers, though the effects may take longer to be felt, including their default tariffs... To manage these risks and ensure fair outcomes it is likely that default product rules and the design of any price protections will need to be considered as part of the transition to MHHS.”*  
(Citizen's Advice, October 2023)

**Ofgem are also working with the energy sector to explore the different approaches that could be used to protect default tariffs in future.** The Government and Ofgem have worked together on this call for evidence and their discussion paper exploring what regulations might work best to protect consumers interests in future, respectively, and expect to continue doing so when considering the responses.

**This call for evidence will focus exclusively on default tariff arrangements.** We are interested in exploring the general starting and return arrangements when consumers have not actively chosen an energy deal.

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<sup>1</sup> As of October 2023: [www.ofgem.gov.uk/retail-market-indicators](http://www.ofgem.gov.uk/retail-market-indicators)

## Call for evidence details

**Call for evidence reference:** Call for evidence on future default tariffs.

**Issued:** 23 February 2024

**Respond by:** 22 April 2024

**Enquiries to:** Retail Energy Markets and Consumers Team.

**Email:** [DefaultTariffs@energysecurity.gov.uk](mailto:DefaultTariffs@energysecurity.gov.uk)

**Address:**

Retail Energy Markets and Consumers Team  
Department for Energy Security and Net Zero  
2 Dearmans Place  
Salford  
M3 5DS

**Audiences:**

This call for evidence will be of particular interest to the following parties:

- Energy suppliers
- Consumer groups
- Industry bodies
- Academics
- Think tanks

**Territorial extent:** This call for evidence is for Great Britain (energy policy is devolved to Northern Ireland).

## How to respond

Your response will be most useful if it is framed in direct response to the questions posed, and with evidence in support wherever possible. Further comments and wider evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation.

We encourage respondents submit responses online wherever possible as this is the Government's preferred method of receiving responses. However, responses in writing or via email will also be accepted. Should you wish to submit your main response via the online platform and provide supporting information via hard copy or email, please be clear that this is part of the same response.

**Respond online at:** [energygovuk.citizenspace.com/clean-electricity/default-tariffs-call-for-evidence](https://energygovuk.citizenspace.com/clean-electricity/default-tariffs-call-for-evidence)

**Email to:** [DefaultTariffs@energysecurity.gov.uk](mailto:DefaultTariffs@energysecurity.gov.uk)

**Write to:**

Retail Energy Markets and Consumers Team  
Department for Energy Security and Net Zero  
2 Dearmans Place  
Salford  
M3 5DS

## Confidentiality and data protection

Information you provide in response to this call for evidence, including personal information, may be disclosed in accordance with UK legislation (in particular the Freedom of Information Act 2000, the Data Protection Act 2018, the UK General Data Protection Regulation, the Environmental Information Regulations 2004 and section 105 of the Utilities Act 2000). If you want the information that you provide to be treated as confidential, please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

The Government and Ofgem have worked together on this call for evidence and their discussion paper, respectively, and expect to continue doing so when considering the responses. We therefore anticipate that responses to this call for evidence will be shared with Ofgem. If there is a particular reason a response should not be shared, consultees should indicate so in their submission.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

## Quality assurance

This call for evidence has been carried out in accordance with the Government's [consultation principles](#).

If you have any complaints about the way this, call for evidence has been conducted, please email: [bru@energysecurity.gov.uk](mailto:bru@energysecurity.gov.uk).

# Chapter 1: How default tariffs should support households in the future

## The energy system is getting smarter

**Energy does not cost the same throughout the day.** When demand is high or supply low the price of energy increases. The cost of energy is likely to fluctuate more in future, as demand for electricity increases and generation becomes more variable. Reducing our reliance on expensive foreign fossil fuels is vital for the UK's energy security, achieving net zero, and bringing down bills. However, while renewable energy sources are cheaper than polluting alternatives, the amount of power they generate is more directly impacted by the weather, and so can be more changeable over short periods.

**We need to use energy smarter.** The most efficient way to manage peaks in demand and troughs in supply is to balance building more power capacity with using energy more strategically. The more flexibly we can use energy the less infrastructure needs to be built to generate and transport electricity, and the lower everyone's bills. Currently, the way the system settles how much energy is used and paid for is too crude to reward consumers for using energy more efficiently. In future, energy suppliers will be charged for how much electricity their consumers use during every half-hour price interval, rather than estimated profiles of consumption. This will be known as Market-wide Half Hourly Settlement (MHHS).

**We want the benefits of a smarter system to reach consumers.** The transition to MHHS from 2025 will encourage suppliers to reward households for shifting their energy usage to cheaper times of day; while smart low-carbon technologies, such as electric vehicles (EVs), should make it easier for consumers to use energy more flexibly. These changes should help ensure that consumers directly benefit from a smarter, more flexible system. MHHS could help reduce the peaks in UK energy demand by between 6% and 30% by 2045.<sup>2</sup> Overall, the benefits for consumers of a smarter, more flexible energy system are estimated at up to £10 billion per year by 2050.<sup>3</sup>

**The retail market has a key role to play.** The transition to a smarter energy system should make it possible to offer consumers a greater variety of deals. Energy tariffs could help with the upfront costs of bringing low-carbon technologies into households and help consumers manage away complexity. A vibrant and well-organised retail market will be the key to ensuring consumers can take advantage of new, cheaper, choices.

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<sup>2</sup>

[www.ofgem.gov.uk/sites/default/files/docs/2021/04/mhss\\_final\\_impact\\_assessment\\_final\\_version\\_for\\_publication\\_20.04.21\\_1\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/04/mhss_final_impact_assessment_final_version_for_publication_20.04.21_1_0.pdf)

<sup>3</sup> [www.gov.uk/government/publications/transitioning-to-a-net-zero-energy-system-smart-systems-and-flexibility-plan-2021](https://www.gov.uk/government/publications/transitioning-to-a-net-zero-energy-system-smart-systems-and-flexibility-plan-2021)

## Principles for future default tariffs

**Different consumers will want different things.** Everyone will benefit from a smarter system with more flexible behaviour, as it will drive down the costs of generating and transmitting energy. But while some households will want and be able to use energy more flexibly, others will need and prefer simpler arrangements. To build a credible path to better energy prices, we need to identify a fair way to manage the trade-offs between different interests in the future. To help achieve that, we are considering adopting the following three principles.

- 1. Principle 1 – The market should be free to reward households for using energy smarter.** There is currently little benefit to consumers of engaging with their choice of energy tariff; in part because of the current limited availability of deals that are more competitive than regulated default tariffs. In the future, there should be new reasons to engage. Low-carbon technologies, like smart EV charge-points, should help households to shift their energy use to off-peak times and consumers should be able to benefit financially from the extra value they create by using energy more flexibly. Regulations will need to account for the fact that encouraging households to become active in their energy choices is not only good for their bills but could also drive down the system costs for everyone.
- 2. Principle 2 – Default tariffs should protect consumers from unnecessary complexity and costs.** Although everyone will benefit from a smarter system, not all consumers will want or be able to adapt their energy use to take advantage of newer deals, like dynamic Time of Use tariffs. Forcing households into particularly complex deals that they are not prepared for is not reasonable and will not help achieve net zero.
- 3. Principle 3 – Households should not be exposed to excessive costs from the inefficient use of high-consuming items by other consumers.** The cheapest way to use low-carbon technologies, like electric vehicles, is through smart Time of Use and Type of Use tariffs. The default tariffs for these technologies should help consumers make the most of them to reduce their bills.

## Questions

- 1. Do you agree with these principles?**
- 2. Are there any other key decisions concerning the future regulation of default tariffs that you believe these principles would not cover?**



## Chapter 2: The types of future default tariffs

### Protecting households from unnecessary complexity and costs

**The types of deals households' default onto may evolve.** A substantial majority of domestic default deals are currently single-rate tariffs, where the price does not change during the day, but over longer intervals determined by the supplier or regulations like the default tariff cap. The transition to MHHS from 2025 will encourage suppliers to reward households for shifting energy usage to cheaper times of day. As a result, suppliers may begin to make Time/Type of Use tariffs – where the price varies during the day or depends on what the energy is being used for – their standard offering. Currently only a small minority of households who have Economy 7 or Economy 10 meters default onto multi-rate tariffs.

**Some tariff types are significantly more complex than others.** Static Time of Use tariffs offer fixed prices for a few fixed time periods of the day. For example, they may have a higher peak price during weekday evenings and lower off-peak pricing during the day or overnight. The levels and times of day where prices change is typically constant for given periods and so highly predictable. Alternatively, the prices on dynamic Time of Use tariffs vary according to market conditions more and are typically less certain or predictable. For example, the price could vary every hour or half hour to match changes in the wholesale cost of electricity. Dynamic tariffs can be more flexible and offer greater potential rewards to consumers, but they may require consumers to be more active to avoid using energy at costly times. Over time, consumers may increasingly have access to technologies that will make it much easier to manage dynamic tariffs, such as smart thermostats and remotely controlled EV charge-points.

**Households should not be forced into complex tariffs they are not prepared for.** Some countries have already made Time of Use tariffs their default. For example, in Spain the Voluntary Price for Small Consumers (PVPC) regulates the default tariff for many households, with hourly prices set the day ahead. The growth of Time of Use and Type of Use tariffs will help many households reduce their bills to help drive down energy costs for everyone. However, more complex tariffs will not be suited to everyone. Many consumers will not be able or willing to significantly adapt how they use energy, especially if they do not have their own smart devices that make flexible usage easier. Forcing those households onto the most complex tariffs may cost them, without unlocking any additional flexibility for the system.

### Smart default tariffs for low-carbon technologies

**Low-carbon technologies will make it easier for households to take advantage of a smarter energy system.** Electric vehicles smart charge points, heat pumps, heat storage systems and other smart devices will give households greater control over when they use energy. This should enable more households to be able to choose to purchase energy during cheaper times of the day. It will allow consumers to make the most of the energy that they can generate and store at home, for example through rooftop solar panels.

**Tariffs will increasingly become tailored to the range of low-carbon technologies that households have access to.** Type of Use tariffs charge different rates depending on what the electricity is being used for. Suppliers have begun offering tariffs that are both Time- and Type- of Use to electric vehicle owners. These deals should help households to make the most of low-carbon technologies to bring down their bills.

For example, the case studies below illustrate how electric vehicle owners with a wide variety of energy needs could save hundreds of pounds a year by moving to a Time of Use tariff. In most circumstances (as illustrated by profiles 1-3) the savings from smart charging overnight more than offset the increase

in the electricity bill for non-EV charging purposes. In a minority of cases, it is possible that electric vehicle owners with particularly high household consumption and low electric vehicle usage may benefit slightly from choosing a single-rate tariff, as the savings from smart charging their electric vehicle are more than offset by the relative increase in the electricity bill for non-EV charging purposes if they continue to charge over peak hours.

**Table 1: Case studies of potential savings that different electric vehicle owners could make with a Time of Use tariff.**

Consumer's profile of energy use	Time of Use annual saving
Profile 1: Drives 7,400 miles a year with typical household electricity use.	£332
Profile 2: Drives 18,400 miles a year with typical household electricity use.	£921
Profile 3: Drives 4,400 miles a year with typical household electricity use.	£168
Profile 4: Drives 1,600 miles a year with high household electricity use.	-£40

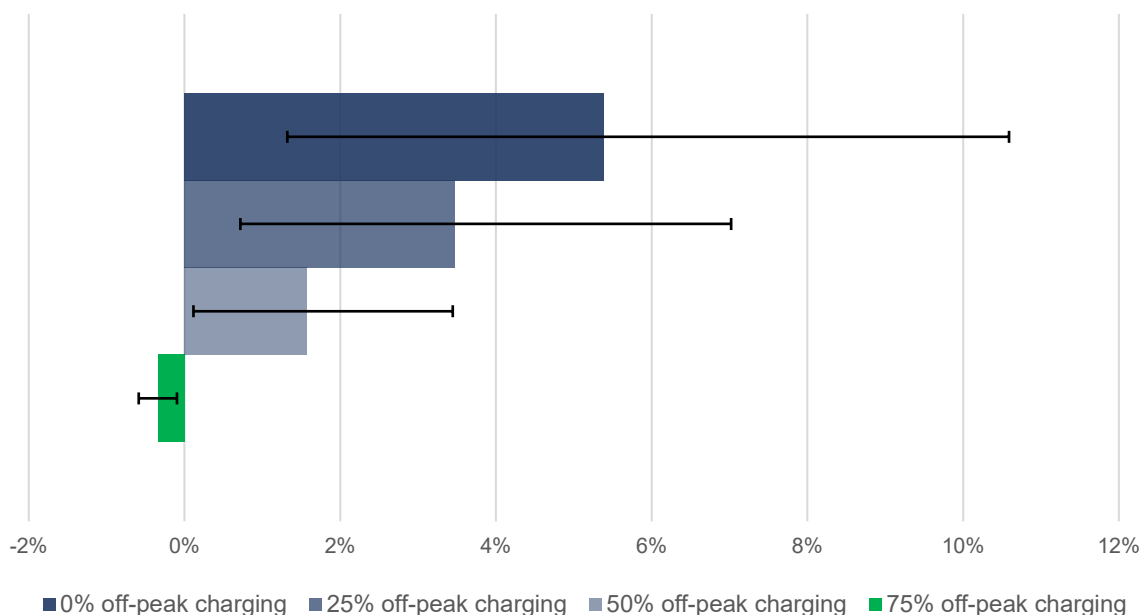
Source: DESNZ internal analysis. The table shows potential savings resulting from smart charging an electric vehicle overnight using a Time of Use tariff, compared to using the default tariff. The modelling is based on tariffs as of October 2023. The Octopus Go Time of Use Tariff rates are 31.5p/kWh at peak times, 9p/kWh at off-peak times and a 36.54p/day standing charge. The costs are compared to using the default tariff cap set by Ofgem, where electricity is priced at 27p/kWh and there is a 53p/day standing charge. Household electricity use assumptions are based on Typical Domestic Consumption Values published by Ofgem. It is estimated that a typical household uses 2,700kWh in the medium use scenario and 4,100kWh in the high use scenario.

**Smart-enabled consumers could inadvertently miss potential savings or even lose money** if they default onto a tariff structure that does not suit their household setup. For example, some households may enter deals where a supplier manages their charge point to optimise the cost of charging their electric vehicle battery overnight. If their charging-tariff arrangements default to a significantly different arrangement when the fixed-term of their deal ends, they could lose out on large savings, or even end up paying a heavy premium for accidentally charging at a significantly more expensive rate than they were expecting.

**There is also a risk to all other consumers**, including those who may not yet be able to afford low-carbon technologies if households are not supported to use their smart devices to their potential. If the growing number of electric vehicles are charged during off-peak hours, it should help decrease the cost of energy for everyone. Electric vehicles are flexible and high-consuming items, whose charging could affect the peaks in overall electricity demand and, in some circumstances, act as batteries for the network, taking energy when it is abundant and discharging energy back into the grid if required. If the peaks in energy demand are lower, then we do not need to import, generate, and transmit as much power. However, if many electric vehicles were charged during peak hours, then the overall cost of electricity would rise significantly.

Figure 1 below illustrates how peak-time electric vehicle charging alone could significantly increase the average profile of household electricity usage by 2030. This would increase the cost of energy used by all households on default tariffs.

**Figure 1: Increase in single-rate electricity tariff from increased electric vehicle consumers under different charging scenarios in 2030.**



*Source: DESNZ analysis based on historic half-hourly tariff data from Octopus agile tariff as a proxy and assuming 13% of default tariff cap consumers charging electric vehicles. “Off-peak charging” is assumed to occur between 1am and 2am. “Peak charging” is assumed to occur between 5pm and 6pm. Error bars based on min/max change in weighted average price from the assumed 2030 demand profile across price data observed over 2019-2023.*

**There is a case for having smart default tariffs for some low-carbon technologies.** Although it is not possible to design general default rules that will work optimally for every household’s situation, they should avoid poor outcomes for most consumers they apply to. The best ways for consumers with certain low-carbon technologies to use energy will be significantly different to those households who do not yet have them. It is therefore difficult to identify one default arrangement that would work well for the majority of either group. For example, the cheapest way to use an electric vehicle is likely to be through a smart Time- and/or Type- of Use tariff, whereas many households without electric vehicles may use most of their energy during peak times and so could see their bills rise under that type of deal. Similarly, if most electric vehicle owners remain on single-rate tariffs, which may suit more households without low-carbon technologies, they would lose out on opportunities to significantly reduce their bills and would have every reason to charge at times that would increase electricity prices for everyone. These impacts will also affect which wider consumer protections for households with different technologies are likely to work best. This issue is discussed further in the next chapter.

**Not all smart devices should impact default tariff arrangements.** Different default tariffs will only be desirable if the technologies that a household possesses could account for a large proportion of their energy use and are suited to using energy at cheaper times of day. Consumers should not need a distinctive default tariff simply because they are using a washing machine with smarter settings. The clearest example of a low-carbon technology that should potentially require different default arrangements are electric vehicles, as charging them can require a significant amount of energy and can easily be done overnight or at other off-peak times. It is possible that some other technologies, such as storage heating systems, may suit similar arrangements.

## Questions

### *The evolution of default tariffs*

3. **With current licence conditions, do you believe most domestic consumers will continue to default onto single-rate standard variable tariffs in future or are suppliers likely to consider using Time of Use tariffs as a default?**
4. **Should protections be placed on the type of default tariffs that suppliers use for domestic consumers?** If so, what should those protections be; for example, is there a case for limiting default Time of Use tariffs to static rather than dynamic pricing?
5. **Should there be different default arrangements for consumers identified as being vulnerable?**
6. **What rights should domestic consumers have over the type of tariff they default onto?** Should all suppliers be able to provide both single- and Time of Use default tariffs for households to move onto?
7. **Are there specific default tariff arrangements that you believe industry or public bodies should trial?**

### *Default tariffs for low-carbon technologies.*

8. **Do you agree that default tariffs for households with electric vehicles should be smart Time and/or Type of Use Tariffs?**
9. **Should there be protections to the type of tariffs that households with electric vehicles default onto?** If so, what should those protections be; for example, should they use static rather than dynamic pricing?
10. **What should default tariff(s) be for electric vehicles owners who do not possess a smart meter or smart charge point?** Do you believe many electric vehicle owners are likely to be in that situation in future?
11. **Are there any other technologies, for example storage heating, which you believe should influence the default tariff arrangements of the households?**
12. **We do not believe that evolutions in default tariff types is likely to have significant impacts on households' ability to use or export power they generate at home with equipment like rooftop solar panels. Do you agree? If not, why?**

### *Default tariffs when fixed-term tariffs for low-carbon technologies end.*

13. **If an electric vehicle owner has chosen a specific tariff, do you believe they could face a detriment if they default onto a different tariff structure at the end of the fixed term?**
14. **How should (a) suppliers and (b) load controllers protect domestic electric vehicle owners who have previously chosen a specific tariff and charging structure, when the fixed term ends?** Should there be a rule or principle encouraging default arrangements to maintain some consistency of tariff type when a fixed term ends? Is there a case for electric vehicle (EV) tariffs to be evergreen or rolling fixed terms?

# Chapter 3: The price level of future default tariffs

## The Default Tariff Cap and half hourly settlement

**The current default tariff cap is a price regulation** which limits the rates that energy suppliers can charge domestic consumers on default tariffs for each unit of gas and electricity, as well as the standing charge that all consumers pay for access to the grid. Households' overall bills depend on how much energy they use at those rates. The default tariff cap (also known as the energy price cap or the cap) was introduced on 1 January 2019, after a review by the Competition and Markets Authority (CMA) in 2016 found that suppliers were passing on excessive costs to some households. It was a temporary intervention that was meant to expire no later than 2023. However, when global energy prices rose to unprecedented levels in 2022, the cap was needed to support the delivery of the Government's Energy Price Guarantee (EPG). The Energy Prices Act 2022 ensured that the cap would not lapse prematurely and could continue supporting the EPG.

**The value the cap brings to consumers has begun diminishing.** Many of the long-term efficiency gains the cap initially drove suppliers to find have been exhausted. Similarly, Ofgem has had to expand allowances in their cap methodology to account for more volatile supply costs. A lag in those costs resulted in several suppliers announcing unexpectedly high profits earlier in 2023. Although those margins were a one-off, and came after a period of losses, sector returns may be higher under the cap in future than it was previously. Current energy market circumstances have led to there being significantly fewer competitive tariffs available compared to before the cap was introduced, reducing households' ability to shop around for better deals. As a result, an unprecedented ~86% of households are currently on default tariffs that are regulated by the cap.<sup>4</sup>

**It may become harder to operate the cap efficiently after MHHS.** Legislation requires Ofgem to consider whether an 'efficiently run supplier' could finance their supply activities when setting the cap level. After Market-wide Half Hourly Settlement, suppliers will be charged for how much electricity their consumers use during every half-hour price interval, rather than based on generalised estimates of their consumption profile. Some retailers will find that their customer base has more costly 'peaky' usage than other suppliers. Ofgem will therefore have to decide how much control suppliers can be said to have over the costliness of their customer base. To ensure the cap is covering legitimate supply costs, Ofgem may feel required to set the cap higher than the average cost of settlement across suppliers. As most suppliers currently choose to set their default rates at, rather than below, the cap level, there is a risk that this anchors costs for consumers higher than they might be under more competitive conditions.

**The way consumers get the best value deal is changing.** The cap can be effective at protecting consumers when their interests are determined by a straight-forward contest between deals with a single-rate price. The CMA noted the homogeneity of energy tariffs as one of the main reasons many consumers were not engaging in the energy market and so potentially in need of price protections.<sup>5</sup> But the move to a smarter energy system should open up new ways for households to reduce their bill and make consumers' energy choices more meaningful. Tariffs could help consumers with the upfront costs of acquiring low-carbon technologies and reward them for using those technologies to reduce system costs (as illustrated in Figure 1) or smooth out price signals for consumers who prefer simpler arrangements. In future, consumers' outcomes will depend more heavily on securing deals that match the way they want to use energy, and less on a straight-forward price contest between tariffs with the

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<sup>4</sup> As of October 2023. [www.ofgem.gov.uk/retail-market-indicators](http://www.ofgem.gov.uk/retail-market-indicators)

<sup>5</sup> [www.gov.uk/cma-cases/energy-market-investigation](http://www.gov.uk/cma-cases/energy-market-investigation)

same structure. To deliver deals that match the range of people's needs, the retail market must support a greater diversity of companies and business models.

**Supporting more households to make active energy choices will help bring down everyone's bills.** In the past, if consumers chose to engage with their energy choices it only affected their household's bill. The cap effectively re-balanced the outcomes of disengaged and engaged consumers without net losses to UK households overall. Now that the energy system is becoming smart enough to support (and reward) more flexible consumption, households who take advantage of new technologies to shift their energy use to cheaper times of day will also be helping to reduce costs for everyone. If the peaks in energy demand are lower, then we do not need to import, generate, and transmit as much power. MHHS could help reduce the peaks in UK energy demand by between 6% and 30% by 2045.<sup>6</sup> Overall, the benefits for consumers of a smarter, more flexible energy system are estimated at up to £10 billion per year by 2050.<sup>7</sup> There is a risk that the current default tariff cap may discourage households from engaging with their choice of tariffs and reduce the range of deals available to them. To secure lower long-term energy bills for UK households, we may need to give the market more freedom to reward households for the extra value they create when they use energy smarter.

**Households who cannot yet afford low-carbon technologies should not be forced to pay for others' choices.** If the growing number of electric vehicles are charged during off-peak hours, it should help decrease the cost of energy for everyone. However, as Figure 1 showed, if many electric vehicles were charged during peak hours, then the average cost of electricity for capped tariffs would rise significantly. The cheapest way to use low-carbon technologies like electric vehicles is through smart Type and Time of Use tariffs. However, without amendments to the rules, the current cap design would dampen the costs of charging electric vehicles at peak hours (as shown in Figure 2 below). The extra real-world costs would instead be socialised across all households, including those with an electric vehicle and the ability to decide when they are charged. We do not believe that it should become standard for households who cannot yet afford low-carbon technologies to be subsidising the costs of high-consuming items that are being used inefficiently.

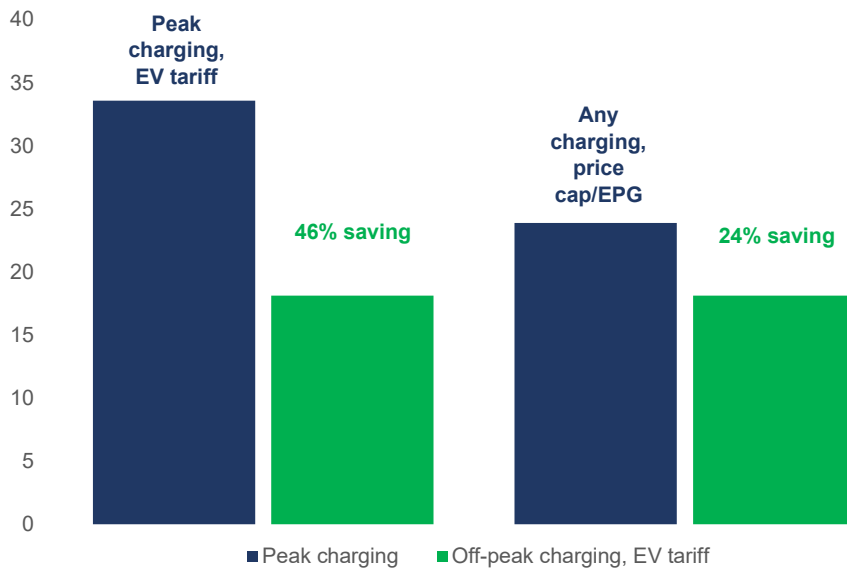
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<sup>6</sup>[www.ofgem.gov.uk/sites/default/files/docs/2021/04/mhss\\_final\\_impact\\_assessment\\_final\\_version\\_for\\_publication\\_20.04.21\\_1\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2021/04/mhss_final_impact_assessment_final_version_for_publication_20.04.21_1_0.pdf)

<sup>7</sup>[www.gov.uk/government/publications/transitioning-to-a-net-zero-energy-system-smart-systems-and-flexibility-plan-2021](https://www.gov.uk/government/publications/transitioning-to-a-net-zero-energy-system-smart-systems-and-flexibility-plan-2021)



**Figure 2: Average annual electric vehicle charging costs under different tariffs and charging patterns (2019-2023, real 2023 p/kWh).**



Source: DESNZ analysis based on historic price cap/EPG price and Octopus agile tariff data. “Off-peak charging” is assumed to occur between 1am and 2am. “Peak charging” is assumed to occur between 5pm and 6pm.

## Alternative future protections

**We do not plan to remove the default tariff cap at this time.** The cap has performed a valuable role. In response to the cap many legacy suppliers made one-off operational changes, such as replacing outdated IT systems, to become more efficient. Ofgem analysis suggests that indirect operating costs of large suppliers fell by 11.4% on average after the cap was introduced.<sup>8</sup> More recently, the cap was vital in enabling the Government to deliver timely support to households’ energy bills during because of the changes to gas prices due to Russia’s invasion of Ukraine. While the precise design of the current cap is unlikely to be the best way of supporting households in future, it may still be limiting small price increases in the current market.

**Ofgem has the powers and duties it needs to continue protecting households from unfair energy deals.** Ofgem’s primary duty is to protect consumers, and the Government expects them to exercise their powers robustly to deliver it. The Domestic Gas and Electricity (Tariff Cap) Act 2018 specifically requires Ofgem to continue reviewing whether consumers on default rates, especially vulnerable households, are at risk of excessive charging and, if required, intervene to protect them. This duty remains if price regulations evolve from the current design of the default tariff cap.

**Ofgem are beginning to gather evidence on future protection options.** Ofgem will soon be publishing a discussion paper exploring what regulations might work best to protect consumers interests in future. We encourage all interested parties to feedback to Ofgem on the protection models they believe would help households secure the best deals in a smarter, more flexible market.

<sup>8</sup> [www.ofgem.gov.uk/publications/outcome-2022-review-whether-conditions-are-place-effective-competition-domestic-supply-contracts](https://www.ofgem.gov.uk/publications/outcome-2022-review-whether-conditions-are-place-effective-competition-domestic-supply-contracts)

## Questions

- 15. Should the current default tariff cap be either reformed or replaced to provide more flexible price regulations as we transition to MHHS?** If so, when in the transition to MHHS do you believe that change should take place?
- 16. Do default price regulations need to support a greater diversity of tariff types to help secure lower long-term bills and meet households' different energy needs?** If so, how might this best be achieved?



# The future regulation of default gas tariffs

The unprecedented price rises caused by the global gas crisis has demonstrated the need to reduce our reliance on volatile fossil fuels. Although gas pricing should become relevant to fewer households over the long term, default gas tariffs will affect many consumers for several more years. Unfortunately, the gas system is not as smart as the electricity system is becoming and so fewer options to help reduce overall bills exist. Although the settlement system for gas will not experience the same structural changes as that for electricity, it is important that price regulations do not artificially inflate the benefits of continuing to rely on gas. If default price protections are reformed for electricity tariffs in future, it will be important that the regulation of gas tariffs is compatible with the overall objectives for those reforms. Ultimately, competition may be the best way to drive tariff pricing in the retail gas market.

## Question

**17. If price protections for default electricity tariffs are reformed in future, do you believe that regulations for default gas tariffs should also be updated?**

# Default tariffs for businesses

**The domestic and non-domestic markets are different.** To be successful, businesses need to actively manage their costs. We have therefore avoided regulatory interventions that could prevent well-run companies from benefitting from a more competitive market. As a result, there is currently less regulation of default tariffs in the non-domestic market.

**Competition remains the best way to drive value and innovation in the non-domestic energy market.** We are not looking to introduce a Universal Service Obligation or intervene to regulate prices with something like the domestic default tariff cap. It is for businesses, not the Government, to determine commercial agreements for the supply of goods and services, including terms for when a company is 'out of contract' for their energy use.

**The regulator will continue to protect businesses from unreasonable default tariffs.** Ofgem has rules surrounding the energy contracts that businesses are obliged to honour if they are yet to agree a deal with a supplier (for example when moving into new premises). Licence conditions require that suppliers' pre-contract 'deemed rates' are not 'unduly onerous'. Ofgem recently reviewed how this rule was being interpreted and have published additional guidance to drive up best practice and provide more clarity to both suppliers and businesses.<sup>9</sup> Ofgem will continue to monitor the non-domestic market and update their guidance to ensure they track evolutions in the types of tariffs available.

**Non-price protections for microbusinesses.** There are several additional non-price protections that currently exist for microbusiness consumers that form part of the Standard Licence Conditions. These came into effect following Ofgem's decision on their Microbusiness Strategic Review in 2022. The decision strengthened supply licence conditions around the provision of principal contractual terms to ensure consumers receive key information such as Third-Party Costs. Ofgem are currently exploring whether this should be expanded to more than just microbusinesses. The decision has introduced requirements for suppliers to only work with energy brokers signed up to a qualifying alternative dispute resolution scheme. Again, Ofgem is currently exploring whether this should be expanded to include more than just microbusinesses. Finally, the decision also prohibited suppliers from requiring microbusinesses to provide notice of their intent to switch, except for Evergreen contracts.

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<sup>9</sup> <https://www.ofgem.gov.uk/publications/guidance-deemed-contracts>

## Next Steps

The purpose of this call for evidence is to explore how the type and price of default tariffs may evolve and test out some principles that could help us build the fairest credible ways forward for different groups of consumers. The deadline for responding is 22 April 2024

The Government and Ofgem will consider the evidence we receive from this call for evidence and the discussion paper on Future Price Protection for Domestic Consumers to agree what further steps are required to build a future market that works better for consumers, is more resilient and investable, and supports the transformation of our energy system. We expect that there will be a further consultation on any new policy or regulatory proposals for future default tariffs before they take effect.

# Full list of questions

## Principles for future default tariffs

1. **Do you agree with these principles?**
2. **Are there any other key decisions concerning the future regulation of default tariffs that you believe these principles would not cover?**

## The evolution of default tariffs

3. **With current licence conditions, do you believe most domestic consumers will continue to default onto single-rate standard variable tariffs in future or are suppliers likely to consider using Time of Use tariffs as a default?**
4. **Should protections be placed on the type of default tariffs that suppliers use for domestic consumers?** If so, what should those protections be; for example, is there a case for limiting default Time of Use tariffs to static rather than dynamic pricing?
5. **Should there be different default arrangements for consumers identified as being vulnerable?**
6. **What rights should domestic consumers have over the type of tariff they default onto?** Should all suppliers be able to provide both single- and Time of Use default tariffs for households to move onto?
7. **Are there specific default tariff arrangements that you believe industry or public bodies should trial?**

## Default tariffs for low carbon technologies

8. **Do you agree that default tariffs for households with electric vehicles should be smart Time and/or Type of Use Tariffs?**
9. **Should there be protections to the type of tariffs that households with electric vehicles default onto?** If so, what should those protections be; for example, should they use static rather than dynamic pricing?
10. **What should default tariff(s) be for electric vehicle owners who do not possess a smart meter or smart charge point?** Do you believe many electric vehicle owners are likely to be in that situation in future?
11. **Are there any other technologies, for example storage heating, which you believe should influence the default tariff arrangements of the households?**
12. **We do not believe that evolutions in default tariff types is likely to have significant impacts on households' ability to use or export power they generate at home with equipment like rooftop solar panels. Do you agree? If not, why?**

## Default tariffs when fixed-term tariffs for low-carbon technologies end

13. **If an electric vehicle owner has chosen a specific tariff, do you believe they could face a detriment if they default onto a different tariff structure at the end of the fixed term?**
14. **How should (a) suppliers and (b) load controllers protect domestic electric vehicle owners who have previously chosen a specific tariff and charging structure, when the fixed term ends?** Should there be a rule or principle encouraging default arrangements to maintain some consistency of tariff type when a fixed term ends? Is there a case for electric vehicle (EV) tariffs to be evergreen or rolling fixed terms?

## The price level of future default tariffs

15. **Should the current default tariff cap be either reformed or replaced with more flexible price regulations as we transition to MHHS?** If so, when in the transition to MHHS do you believe that change should take place?
16. **Do default price regulations need to support a greater diversity of tariff types to help secure lower long-term bills and meet households' different energy needs?** If so, how might this best be achieved?

## The future regulation of default gas tariffs

17. **If price protections for default electricity tariffs are reformed in future, do you believe that regulations for default gas tariffs should also be updated?**

This consultation is available from: [www.gov.uk/government/calls-for-evidence/default-energy-tariffs-for-households-call-for-evidence](https://www.gov.uk/government/calls-for-evidence/default-energy-tariffs-for-households-call-for-evidence)

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