



Ofgem's Call for Input on Standing Charges

Comments from the Committee on Fuel Poverty

17 January 2024

Introduction

The Committee on Fuel Poverty (the Committee) is an advisory non-departmental public body sponsored by the Department for Energy Security and Net Zero (DESNZ). The Committee advises on the effectiveness of policies aimed at reducing fuel poverty and encourages greater co-ordination across the organisations working to reduce fuel poverty.

The Committee welcomes the opportunity to comment on Ofgem's Call for Input on Standing Charges which have significant implications for households in fuel poverty. Our comments are limited to the areas which align most closely with the Committee's remit.

Response and Comments

As identified in our annual report, 'Meeting or Missing the Milestones' (2023)¹, the sharp upturn in energy prices in 2022 caused widespread public concern and fears about the affordability of domestic energy.

Ofgem's discussion paper recognises too that:

'Standing charges for domestic electricity customers have increased significantly since 2021. For a customer who pays for their electricity bills by direct debit, they have more than doubled from £86 per annum to £186 per annum on average between 2021 and 2023.'

There are two reasons identified for the increase in standing charges. First from Ofgem's decision to move charging of certain types of network costs from a unit cost basis to a fixed basis following the Targeted Charging Review (TCR).

The second reason is that the costs of supplier failures in electricity through appointing Suppliers of Last Resort (SoLR) are being recovered from suppliers through standing charges.

Suppliers are now having to pay more fixed costs and have chosen to pass them on to customers in the form of standing charges rather than unit rates. As Ofgem makes clear suppliers are not obliged to do this, but all have whilst setting the standing charges at a similar level.

¹ <https://www.gov.uk/government/publications/committee-on-fuel-poverty-cfp-annual-report-2023>

It would be interesting to know if Ofgem anticipated this or not and to understand from suppliers more the rationale for choosing to pass on costs to billpayers in this way.

Ofgem say these costs would have to be met if not by standing charges, then by unit rates, but acknowledges that standing charges have a disproportionate negative impact on many low-income households.

Reducing standard charges could help. Based on Ofgem's modelling the overall effect for those on lower incomes would be more progressive (Table 3 of consultation). 5.5 million low-income consumers gain minimal benefit, paying on average £21.90 a year less whilst 1.2m low-income customers will typically pay £44.52 more a year. The latter group includes vulnerable customers with high energy needs for health reasons along with households reliant on electric heating, poorly insulated homes, private renters, and rural residents.

Research commissioned by the Committee, titled 'Understanding the challenges faced by fuel poor households,' found that during Winter 22/23 low-income households reduced their consumption of fuel to control costs whilst still having to pay the standing charge. This suggests the switch from standing charges may have more than the minimal impact that Ofgem have modelled. Perhaps some further modelling would be helpful to understand not only the impact of the financial cost of standing charges but also other consumer behaviour to offset bills.

Something to consider is whether, for the 1.2m low-income customers who would lose out from standing charges being reduced, there are other targeted solutions to tackle their additional needs and offset the negative impact.

There are no easy answers. At paragraph 7.8, the discussion paper suggests: '*One solution to the issue of standing charges could be for suppliers to issue a greater range of tariffs to customers, and to assist their customers in finding the right tariff for them.*'

The Committee would encourage Ofgem to consider mandating provision of a variety of tariffs and obliging suppliers to use data on energy use to put their customers on the best combination of unit rate and standing charge for their energy usage patterns. One suggestion is two standing tariffs, one with a low standing charge and one with a higher, with guidance to help consumers use the tariff most appropriate for them and their energy use.

The Committee welcomes Ofgem's proposal to level the Pre-Payment Meter (PPM) and Direct Debit standing charges and debt related costs shared between standard credit and direct debit and to introduce a reconciliation mechanism.

The Committee's view is that when considering policies which add to bills, an assessment of the impact on fuel poverty should be made in advance.

Environmental charges and levies (even though not part of standing charges) provide context around wider fixed costs faced by consumers as part of their energy

bills. Stark regional variations should be assessed to evaluate the validity of difference.

Looking to the future the paper mentions electric network charges could cause higher charges in 2025; a one-off adjustment in 2024 to fix costs for Distribution Use of System (DUoS) which lagged behind but should rectify going forward; the potential for more of the costs of Bulb's failure to be picked up by bill payers as well as new levies such as the Energy Intensive Industries (EII) Levy which is due to become effective from April 2024.

The Committee felt more discussion on potential emerging risks would be helpful. Suppliers may fail – what are the levels of risk, potential impact. The Committee felt the paper was too optimistic about this not happening again. Ofgem should consider the impact on low-income consumers if this were to happen and how it would be rectified by regulation.

The costs of SoLR if any future energy company fails are likely to go on energy bills but could be paid through general taxation. This consultation cannot decide where costs fall but can focus on where Ofgem can influence cost collection through bills, such as through different tariffs/levies for different consumer households.

Smart meters should reduce operating costs for suppliers. They should also provide detailed information to suppliers on energy usage. Only 60%² of domestic households have smart meters so the granular information on energy usage is not available to enable greater understanding on consumer energy use and potential targeted support for fuel poor and vulnerable households.

In the short to medium term, the first to move to lower carbon heating are those more able to pay (not low income/fuel poor households). This presents a risk to fuel poor households who may be left behind in the transition and face higher bill costs consequently without being able to change their energy usage.

In the follow up discussions to this call for input, the Committee would like to see further investigation on the impact of standing charges and other additional costs on low-income households before they even use any energy (looking at annual costs to demonstrate the extent of impact on low-income households) as part of a fair transition to net zero.

The coming decade will involve unprecedented levels of investment to decarbonise our homes, the grid, and accelerate progress in the transition to net zero. The total cost will continue to rise so whatever the outcomes of this consultation on standing charges more thought is required to ensure cost increases and how they are applied are fair. It raises the question: is it fair that fuel poor and vulnerable households should be asked to contribute to these policies and to reduce fuel poverty through their bills and if so by how much?

² At the end of September 2023, 60% of all domestic meters operated by large energy suppliers were smart meters (56% for gas and 62% for electricity).
<https://www.gov.uk/government/statistics/smart-meters-in-great-britain-quarterly-update-september-2023>