



## **Response to Ofgem's call for input on standing charges**

18<sup>th</sup> January 2024

### **About Fair By Design**

Fair By Design is dedicated to reshaping essential services such as energy, credit, insurance and payments so that they don't cost more if you're poor – also known as the poverty premium. Fair By Design collaborates with regulators, government and industry to design out the poverty premium. Our Venture Fund provides capital/funding to grow new scalable ventures to innovate the market and design out the poverty premium. Ascension manages the Fair By Design Fund. Fair By Design is managed by the Barrow Cadbury Trust on behalf of a group of foundations.

In the context of the energy market, we believe that households on low incomes/living in poverty should not incur a poverty premium based on the way they pay for their energy or for not actively engaging in the market.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Maria Booker:  
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### **Summary**

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.

The reason for this increase is that suppliers are now having to pay more fixed costs and are passing them on to customers in the form of standing charges rather than a unit cost basis (there is nothing to stop suppliers recovering these costs differently and the call for input also seeks to ascertain why suppliers are not offering a more varied range of tariffs).

Gas standing charges have remained relatively stable over the same period.

Ofgem has issued this call for input in response to concerns about the high level of standing charges.

We welcome the opportunity to contribute to Ofgem's call for input on standing charges having long been concerned about the impact of standing charges on those on low incomes. We have decided to submit a statement rather than responding to the questions posed in the call for input. In summary:

- We would like to see the Government and Ofgem addressing energy affordability holistically. We would like to see standing charges reduced and the fixed costs of the energy system recovered in a more progressive way but recognise that some low-income groups would be adversely affected by such a change if not accompanied by other mitigating measures.
- People on low incomes feel strongly that it is inherently unfair that what people pay in terms of their standing charge bears no relation to how much energy they use, or their income/size of their property.
- We particularly want Ofgem to look at addressing standing charges that accrue when people on low incomes go off supply to save money.
- We would like to better understand the long-term picture regarding standing charges. We understand that an upward trajectory is anticipated. In particular, we would like to understand the interaction with the Government's commitment to rebalance policy levies between electricity and gas.

### **We want to see the Government and Ofgem working together to address energy affordability**

We recognise that this is a complex issue which is difficult for Ofgem to address holistically on its own. Fair By Design, alongside other organisations, has campaigned for a social tariff for energy for some time. It is frustrating that Ofgem must consider how to protect all consumers, particularly vulnerable consumers, when the Government has not fulfilled its promise to consult on how to support those who can least afford energy. Other options the Government could bring to the table include removing VAT from energy bills, funding some infrastructure costs through general taxation, implementing a temporary help to repay debt matching scheme,<sup>1</sup> and reviewing eligibility for, and the size of, the Warm Home Discount.

### **Fixed costs should be recovered in a fairer way**

Fair By Design's starting point is that fixed costs of supplying energy (such as network, infrastructure and policy costs) should be recovered in a fairer way. At present, a household living in a tiny house, would pay the same in standing charges as the Royal family for living in Buckingham Palace. The fact that the contribution a household makes to funding the fixed costs of the system bears no relation to the size of property they live in, their income, or the amount of energy they use seems inherently unfair. The taxation system at least gives a personal allowance before requiring someone to contribute to the costs of running the

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<sup>1</sup> Money Advice Trust. (n.d.). *Help to Repay*. [online] Available at: <https://moneyadvicetrust.org/help-to-repay/> [Accessed 17 Jan. 2024].

country's public services. Yet a household must contribute a significant amount (over £300 per year) to the fixed costs of the energy system even when they are not using it.

People on low incomes themselves have told us how strongly they feel about standing charges being unfair:

*"The standing charge is horrendous. My tariff has gone up which is understandable but the charge just for the meter has doubled"*

*"It's absurd that standing charges are such a large part of bill. The whole way that energy is purchased and passed to customers is absurd"*

*(Quotes from focus groups held by Fair By Design and Poverty Alliance with people with lived experience of poverty in April 2023)*

The latest national statistics show that for the lowest income decile a typical energy bill is £972.40<sup>2</sup>. The average household's standing charges equate to around 30% of that total bill. Because people on low incomes pay a higher proportion of their bill as a standing charge they pay the highest cost per unit, a "poverty premium", for their energy. As Ofgem has recognised, high standing charges combined with low usage means that there is very little that people can do to reduce their energy bill further. We therefore welcome Ofgem exploring how standing charges could be reduced.

We particularly urge Ofgem to focus its efforts on how to address the issue of households who go off supply to save money and yet still face a build-up of standing charges. This particularly affects those on pre-payment meters, who must use precious funds paying off the standing charges that have built up before they can get any energy they can use. However, those on low incomes who pay by other payment methods are also saddled with standing charge debt when they go off supply for a period. We urge Ofgem to investigate options for addressing the most egregious impacts of standing charges on those on low incomes by exploring options such as:

- Introducing an exemption for gas standing charges when no gas is being used
- Reallocating the standing charge to the unit rate for pre-payment meter customers
- Moving standing charge accrual "to the back" of prepayment meters so that pre-payment meters can get back on supply instantly
- Looking at standing charge bands or rising block tariffs so that those who use more pay more.

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<sup>2</sup> [Family spending workbook 1: detailed expenditure and trends - Office for National Statistics \(ons.gov.uk\)](#)  
(Table A6 – elec and gas x 52)

## **Mitigating the impact on low-income households with high energy needs**

We note that Ofgem's analysis suggests that reducing the electricity standing charge by 50% and recovering the additional costs from the unit rate would benefit 5.5m households in the lowest income quartile by around £21.90 per year. For gas, 3.7 million in the lowest income quartile would benefit by £13.38 per year on average. It is worth noting that although a 50% reduction in standing charges only results in fairly modest bill reductions for most, low-income households are likely to perceive the significant reduction in standing charges as fairer overall, which could contribute to restoring trust in the energy market.

However, because it does not always hold that those on higher incomes use more energy, if standing charges were halved and the costs were recovered from the unit rate, Ofgem calculates that 1.2m low income, high-use households would find their electricity bill increasing by £44.52 per year (the average adverse impact for gas is much lower – 1.8m households would see their bill increase by 58p per year). We urge Ofgem to explore what can be done to mitigate the impact of reducing standing charges whilst recognising that many of the tools to do this sit with the Government.

An important starting point would be improving the quality of data available to Ofgem (for example by improving Priority Services Register data) and combining data sources (such as smart meter data and other supplier data) to enable interventions to be targeted at households who need them. We note that at present Ofgem is unable to confidently target interventions at vulnerable households. We also urge Ofgem to encourage the Government to expedite its work on data matching so that any current or future bill support that may be considered can be as effectively targeted as possible.

## **A dynamic analysis of standing charges**

Ofgem's call for input paper analyses the impact of reducing standing charges by 50% in one go. However, Ofgem acknowledges that there are upward pressures on standing charges. We would be keen to see Ofgem set out an analysis of the longer term trend of standing charges expected over the next decade or so, taking into account the Government's commitment to rebalance policy costs between electricity and gas, and how any changes to standing charges might impact on the Government's legal obligation to meet net zero amongst any other changes anticipated. It would be helpful to understand this in more detail both in a "no change" scenario and in a scenario where action was taken to reduce standing charges.

We look forward to seeing Ofgem's response to this call for input.