

## **Standing Charges, Network Charges and the Price Cap**

### **About Us**

Advice Direct Scotland (ADS) is Scotland's largest digital advice agency, providing free and independent advice to the citizens of Scotland. We partner with the Scottish Government for the provision of energy advice to all domestic properties and microbusinesses in Scotland. Our experience in delivering frontline consumer energy advice to the entirety of Scotland ensures that we have first-hand knowledge, data and insight related to the impacts of policy and regulation on domestic consumers. We have been key contributors to the Scottish Government's Ministerial Working Groups focusing on energy issues for vulnerable, rural and business customers. Following our participation in the First Minister's two energy summits, we have dramatically improved collaboration across the sector between suppliers and consumer focused organisations, through highlighting specific consumer vulnerabilities

### **Background to response**

As the energy crisis continues, and bills continue to be unaffordable for many, attention has turned to the large increase in standing charges. The standing charge cost for electricity has risen by approximately 60% since September 2021, and will rise again in January. This increase, coupled with the disparity of these charges between energy type, payment method and region, have led many in the industry to call for a review.

One of the main concerns is the impact of standing charges on low energy users. Those who are already strictly rationing their use (with some customers using no energy at all) will still need to pay the same daily standing charge as those who are not forced to ration their usage and are not currently suffering from financial detriment or fuel poverty.

ADS welcomes this call for input and believes standing charges should be a consideration in tackling fuel poverty. Many of those in fuel poverty cannot cover the cost of their energy use, and therefore drastically ration their energy. A restructure would mean a lower proportional spend on standing charges for these consumers leaving more of their funds available to keep their homes powered and heated.

### **Summary of Response**

ADS is supportive of a review of standing charges. There is not, however a one size fits all solution. We would like to see more options for customers so that low users do not pay a proportionally higher bill, likewise we do not want to see high users impacted by increased unit costs. In Quarter 3 of 2023, our most common query was around billing issues which represented 24.4% of all contacts. We also saw many queries on pricing information, 16% of all contacts. These two categories include customers who don't understand their billing and

who feel they are being unfairly billed. Based on these issues we wish to see changes in the following key areas:

### Clearer Regulation

We believe the best solution is clearer regulation on varied tariffs and an obligation for suppliers to identify how different tariff options could benefit customers depending on their unique circumstances.

### Regional Equality

ADS do not believe that those in rural areas should pay a higher cost for their energy network. Living in a rural, remote or island community already comes with an increased price tag. A study by Highlands and Islands Enterprise found that people in remote rural areas would need to have a household budget that was 10 – 40 % higher than those in urban areas to achieve the same standard of living. <sup>i</sup> In Scotland 40% of households in rural areas are in fuel poverty, whilst 33% of these are considered to be in extreme fuel poverty.

### Supplier Support

New regulation for suppliers' service standards should introduce enhanced responsibilities related to supporting vulnerable customers; particularly customers who are financially vulnerable. We believe that suppliers have the clearest picture of customers' financial behaviour concerning energy bills and should therefore ensure that appropriate solutions are offered where problems arise. For instance, where they see a customer who is using very little energy, and likely to be rationing, an alternative tariff with no standing charge could be advised.

### Call for Input

#### **Why are suppliers not innovating on standing charges for tariffs not covered by the price cap?**

The price cap has effectively acted as the standard rate for energy for the majority of UK households over the last 18 months. We have seen few fixed tariffs offered under the cap. With suppliers considering their bottom line, and the best way to maximize profit often being to set the maximum pricing available, it does not create a fertile landscape for price innovation.

Increased wholesale cost and the influx of customers into many of the suppliers that survived the mass supplier failure in 2021 left the market stagnant. Initially many customers

were unable to switch as suppliers were not taking on new customers. The market has started to show more growth in recent months, but tariff pricing remains closely similar across suppliers. As tariff innovation is generally driven by a customer-led market, where enticing new customers is a priority for suppliers, the prevalence of a stagnant market means that innovation is not a priority.

### **What changes could Ofgem make to improve provision for lower standing charges under the cap?**

Improved clarity and guidance on the cap, both for suppliers and customers is needed. There are already gaps in price cap regulation for multiple rate or complex meters. Suppliers have the power to decide on the split between rates, as long as the average stays under that cap. This has left the system open to supplier gaming. Unfortunately, this lack of clarity also leaves customers at a disadvantage as it makes their already complex billing more difficult to calculate. In Q3 2023/24, 4.7% of all enquiries were related to complex metering or billing arrangements.

More detailed information on how to breakdown various options for standing charges within the cap would need to be provided to ensure customers and suppliers were confident that bills are correctly calculated.

Although providing the cap rate at typical domestic consumption value (TDCV) is understandable as it gives a clear reference point to consumers on the costs they may expect, the lack of further information can mean that the cost is misleading, particularly for those with different meter types, less economical or smaller/larger than average housing. Further transparency and wider, more inclusive education on the cap is needed.

In addition to providing a breakdown of price cap costs for a standing charge/unit rate model, Ofgem could give further information, for example providing the cost under the price cap of a zero standing charge tariff. If these were published alongside the TDCV it would improve understanding and transparency of the cap for consumers and would likely encourage suppliers to offer a larger variety of tariffs

### **As a result of TCR and changes to the recovery of residual costs, domestic consumers with very low consumption now bear a share of fixed network costs which is more in line with the cost of maintaining access to gas and electricity networks. Is this fair? Should more be done to shield these customers from these costs?**

Low users of energy, particularly those who prepay for their energy, are already struggling. High standing charges can increase the length of time which customers are disconnected for. Customers who are out of credit for a number of days will need to clear any build-up of standing charges before they are able to get back on supply.

With the new regulation on customer standards and involuntary PPM installations, suppliers must monitor customers who are regularly disconnecting and offer alternative options to support customers to stay on supply. ADS do not believe that there is a one size fits all solution on standing charges, instead, a variety of tariff options should be available.

If suppliers are already identifying low users who are regularly self-disconnecting, then having a zero standing charge tariff to be able to offer these consumers could be an effective option. We believe that customers who are struggling to pay for their energy usage should be shielded from network costs. One option may be to change the standing charge model for prepayment customers who are more likely to be low users and rationing their energy.

### **What are the reasons for regional variations in electricity standing charges?**

Regional variations reflect the cost of transporting energy. Therefore, they are much higher in rural areas. In January of 2024 the standing charge for electricity in southern Scotland will be 62p per day, which constitutes significantly more than the charge for customers in London, who will be paying just 38.40p per day.

The regional model means that charges are higher where energy needs to travel further. However, Scotland is split into only two regions, and both regions bear a high standing charge cost (Northern Scotland will pay 59.38p per day from January 1<sup>st</sup>) In Southern England those living in larger urban centres benefit from a reduction in regional cost, however those in Scotland, North England and North Wales see no such benefit, even if they live in a large city.

Our advisers frequently encounter feelings of anger and frustration from consumers in Scotland who live in close proximity to areas where there is a large amount of renewable energy generation. They see the energy being generated close to them and do not understand why they are then paying a higher standing charge for network costs. Customers often have a hard time understanding the way network costs are recovered, and report that they are not particularly transparent.

In the push towards net zero targets, customer confidence in renewable energy is of paramount importance. If customers see no benefit in their pocket from increased renewable energy, they are less likely to participate in domestic initiatives centred on decarbonization.

ADS would like to see a flat-rate charge without regional disparity to ensure those in rural areas are not disproportionately affected. Those in rural areas already pay a premium due to complex metering systems, lack of access to the gas grid and low-quality housing, they should not be further impacted by high standing charges.

### **Why do so few suppliers offer multi-tier or zero standing charge tariffs to their customers?**

The current regulation model and the price cap means that although suppliers are at liberty to change their tariffs to multi-tier or zero standing charges, the most straightforward way to ensure regulation adherence is to follow the standing charge/unit cost model.

With the price cap being shared with the inclusion of standing charge price guidance, and with supplier scrutiny at an all-time high, risking the provision of a tariff which may prove difficult in ensuring regulatory compliance is a risk suppliers may wish to avoid.

The lack of tariff innovation and close mirroring of tariffs to the cap means that customers are trapped in a stagnant market with little difference between supplier offerings.

**How significant an impact do standing charges have on customers' incentives to use energy efficiently? What evidence can you provide that this is the case?**

ADS does not believe standing charges currently incentivise customers to use energy efficiently. Customers who ration their energy are more likely to do so due to economy of spend rather than to be more efficient. In the last financial quarter, our top issues relating to affordability accounted for 15.2% of contacts, whereas only 0.1% were related to energy efficiency.

Our experience in administering the Home Heating Support Fund which forms part of the Scottish Governments Fuel Insecurity Fund has given us many examples of customers severely rationing energy. We hear daily reports of customers using heating for just an hour a day, limiting loads of washing, sharing bathwater, heating only single rooms in their home and more. In every case this is due to affordability. To date this financial year the fund has provided support to 7,000 individuals and households who are struggling to meet their energy costs and who are rationing their usage.

**Are there any forms of intervention in standing charges that Ofgem might consider that would minimise the risk of producing negative outcomes for some customers?**

ADS would suggest that if any changes are made, particularly in a situation where zero standing charge tariffs would be offered to customers on low incomes, that any action from suppliers is made in conjunction with a review into customers' circumstances. Those whose high usage is due to medical issues should be on the priority services register, however this is not always the case. The design of the register means that it does not always reflect customers' needs adequately. The current register is held by individual suppliers and energy networks and not regularly reviewed. This means that where customers circumstances have changed, or they have moved supplier, they may be listed incorrectly. Customers also need to register themselves, so if they are not aware of the priority services register, they may not be listed at all.

We would therefore wish to ensure that suppliers were making a concerted effort to understand customers' circumstances and identify the suitability of any new tariff

arrangement offered to them. We would also wish to see suppliers ensure improved understanding of tariffs for customers. This would need to include clear and understandable billing and could include a clear guide for any tariff as to how charges worked, and how customers can make the tariff work most effectively for them.

**How can we identify the complex needs of vulnerable customers and ensure that they are able to receive tariffs that benefit them the most?**

Suppliers hold a great deal of data on the behaviour of vulnerable customers and should be able to use this data to identify those who would benefit from different tariffs. In addition, improvements to priority service register data could aid in the identification of vulnerable customers. There is an opportunity to use comprehensive data sets from the Department of Work and Pensions, NHS Scotland, ADS and Social Security Scotland, among others, to form a clearer picture of customers' circumstances, particularly in relation to vulnerabilities.

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