



To: StandingCharges@ofgem.gov.uk.

INTRODUCTION

The Rural Services Network (RSN) welcomes this opportunity to submit comments to the OFGEM Standing Charges Call for Input.

The RSN is a membership organisation which represents over 500 organisations including 86 principal local authorities, 226 town and larger parish councils, 75 health care providers and 222 other bodies (such as housing associations, fire and rescue authorities, land-based colleges, bus operators and youth organisations). It is the national champion for rural services, which helps its members to share best practice and expertise, and which advocates on their behalf to ensure the rural voice is heard by parliamentarians and decision makers.

In particular, we wish to comment on the issues raised in the OFGEM Discussion Paper from the perspective of consumers in rural areas across England.

RURAL ISSUES/CONTEXT

(a) References to Rural in the OFGEM Discussion Paper

We were pleased to see that the Discussion Paper acknowledges some of the issues/potential impacts relating to rural consumers.:

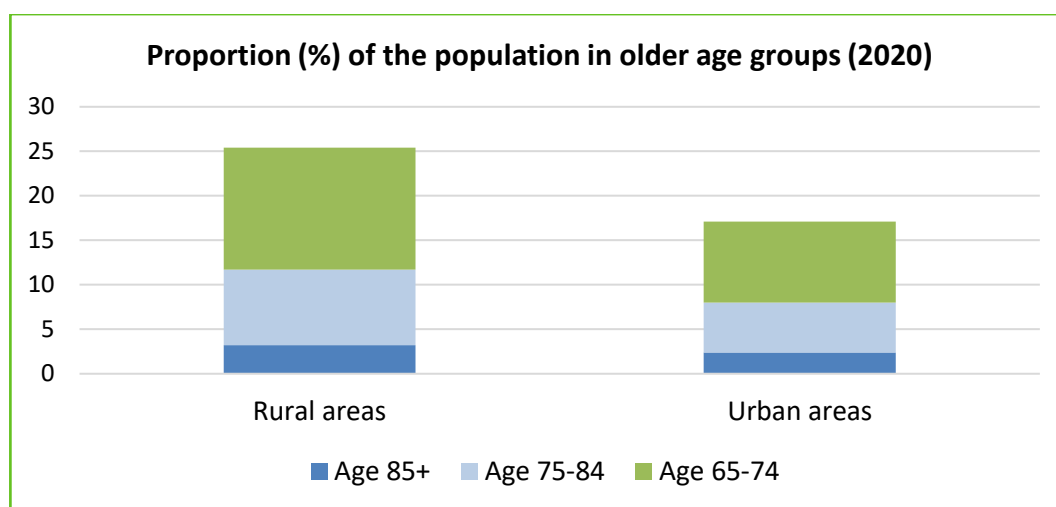
- **"The effect of increasing standing charges falls disproportionately on customers who are lower down the income distribution," (page 7) [although not specifying 'rural' this does apply to a great many rural customers]**
- ***"Those million households that would lose (from a measure to shift electricity costs from standing to volumetric charges), out would include some vulnerable customers with high energy needs, like those reliant on medical equipment or electric heating to keep warm, customers who are reliant on electric heating, and those with poorly insulated homes (often private renters or in rural areas). And whilst the overall effect would be progressive (lower-income consumers would benefit more from a shift back to volumetric costs), those lower-income households that would lose out would see an increase in their bills by twice as much as gainers would see their bills fall". (Page 8)***
- **"The customer archetypes that we use contain a measure of rurality, where a property within the archetype is defined as being in a rural location. This allows us to identify whether customers in rural areas would be more positively or adversely affected by a move from standing to volumetric charging." (para 5.34 – page 45)**
- **"Our analysis indicates that rural households would be adversely affected by a move to volumetric charging; if we were to move 50% of charges from standing to volumetric charges, rural households would pay on average £11.34 more for electricity and £2.50 more for gas. This might be explained by rural households being less likely to have access to gas central heating." (para 5.35 – page 45)**

(b) Population and Household Characteristics of Rural Areas

The age profile, household characteristics and local earnings of rural areas are important considerations in reviewing how costs are distributed across different areas.

Age etc.

- Older people form a significantly larger proportion of the population in rural areas than in urban areas. A quarter of residents in rural areas are aged 65. Furthermore, the proportion of older people is increasing fastest in rural areas. This trend is very marked for those aged 85 or over.



- Rural Services Network analysis of 2021 Census data shows that a relatively high proportion of residents in predominantly rural areas (18%) meets the Equalities Act definition of having a disability. This means they have a condition or illness which limits their ability to carry out day-to-day activities.

Percentage of residents in England with a disability (2021)

Type of area:	Per cent disabled
Predominantly rural areas	18.0%
Predominantly urban areas	16.6%

The above may be indicative of increased need for the use of medical equipment

- 2021 Census data also shows that 9% of residents in predominantly rural areas are unpaid carers meaning that they regularly look after or support someone else who has a long term physical or mental health problem or who has problems related to old age.

Incomes Earned in Rural Economies

- Earnings (mainly from wages) for jobs which are based in rural areas are some £2,000 a year lower than for jobs based in urban areas. Even if London is excluded, average earnings in predominantly rural areas are £1,600 or 6% lower)

Workplace based median gross annual earnings (2022)	
Predominantly rural areas	£25,600
Predominantly urban areas (excluding London)	£27,200

Costs of Living

- The cost-of-living is higher in rural areas.

July 2022: Rural Cost of Living: Overview of key differences in the cost of living between rural and urban locations (KOVIA Consulting).

<https://www.rsnonline.org.uk/new-report-shows-devastating-triple-blow-pushes-rural-communities-in-a-cost-of-living-emergency>

February 2023: Rural Household cost of living survey (RSN)

<https://www.rsnonline.org.uk/rural-households-left-feeling-isolated-by-the-cost-of-living-crisis>.

- The latest figures for energy costs in domestic properties are for 2021, before the recent spike in prices, and are estimates based upon EPC data. They show that the average annual energy cost for a dwelling in predominantly rural areas was £815, which is £95 or 13% higher than in predominantly urban areas.
- Figures for levels of fuel poverty in 2022 relate to households which fit the so-called LILEE definition: that is, where the dwelling's EPC rating is D or less and where the home cannot be kept warm without heating cost taking the household's residual income below the official poverty threshold. This shows that fuel poverty is a particular feature of smaller rural settlements, where it affected almost 16% of households.

(c) Off Gas Grid Premises

- There are around 1.1m fossil fuel heated homes in England which are not connected to the gas grid. – the majority of these are in rural areas. This breaks down to 78% using heating oil, 13% using liquified petroleum gas or LPG, and 9% using coal.
- It follows that the higher Standing Charges which apply to electricity impact greater in rural areas.

RSN COMMENTS IN RESPECT OF THE ISSUES ADDRESSED IN THE DISCUSSION PAPER

1. It is essential that the population and household characteristics of rural areas set out above are properly reflected in the decisions about the balance between standing and volumetric charges.

2. The discussion paper has flagged up to us an issue not covered as such by that paper.

The discussion paper describes standing charges as “put simply, a standing charge is a fixed amount that customers are required to pay as part of their energy bills which does not vary according to their energy usage. **The standing charge varies by region to reflect the different costs of serving customers in different parts** of Great Britain and may also vary slightly between suppliers in the same region”. “In energy these costs include network costs [the costs of the gas and electricity grid plus services that transmit ship and balance the energy carried on it], cost of providing assets like meters plus some administrative costs”

The discussion paper also says “every year, around £11 billion needs to be recovered from users to cover the costs of the networks, the system balancing adds a cost of around another £4.5 billion. **These costs need to be recovered from customers [end users] somehow.**

Despite the push for energy efficiency, demand for electricity is expected to grow, not least as consumers switch to driving (chargeable) electric vehicles and the push for electric heat pumps for domestic and business premises **This raises serious questions about the current capacity and robustness of local power network infrastructure in rural areas. Many government actions proposed cannot be implemented until rural electricity supply networks are improved and reasonably priced sustainable energy alternatives are available.** The current integrity of the rural network is already under significant challenge due to ever increasing adverse weather conditions including flooding.

In the RSN's view the questions about the current capacity and robustness of local power network infrastructure in rural areas represents a clear Market Failure. As such the costs of bringing the electricity network across rural areas up to meeting the net zero challenges should be met not by consumers through their electricity bills (whether through volumetric or standing charges) but by central government itself. It is essential from the perspective of the government levelling up agenda.

If these huge costs are met through standing charges, then it follows that those regions with large rural areas within them will be penalised through enormous costs. There will be little point in consumers seeking to reduce their electricity usage if the vast majority of their bills relate to standing charges.

**Kerry Booth
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Rural Services Network**