

# The MCS Foundation's response to Ofgem's Call for Input: Standing Charges

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## About us

Our vision is to make every UK home carbon free. The MCS Foundation drives positive change to decarbonise homes, heat and energy. In the face of today's climate emergency, a carbon free future for UK homes is vital - a future where everyone has access to renewable energy in homes that are warm and energy efficient. Making that happen as quickly as possible drives all of the Foundation's work. In addition, the Foundation oversees the [Microgeneration Certification Scheme \(MCS\)](#) which defines, maintains and improves quality standards for renewable energy at buildings scale and is run for public benefit, with the profits going back into the Foundation.

## Response

The MCS Foundation does not wish to submit a full response to all the questions, but instead put forward our general position on the subject.

We agree with Ofgem that the issue around standing charges is complex with no clear cut, simple solution. However, with 6.5 million homes in UK predicted to be in fuel poverty as of January 2024 <sup>1</sup>, there is clear and urgent need to address the issue. As the consultation rightly acknowledges, the significant increase in standing charge prices is disproportionately impacting low-income households with low-energy demand. Recent polling by the National Energy Action group found that 2 million people have gone without energy over the past three months,<sup>2</sup> but due to the rise in standing charges, customers on a dual fuel bill will still be paying on average £300 per year without using any energy. Clearly, we cannot continue with business-as-usual, however we do not fully support any of the proposals in the consultation, including the proposal to simply abolish standing charges altogether. We agree that the conversation must continue, and work needs to be done to find a solution that simultaneously protects vulnerable customers, whilst also ensuring that networks are developed at the pace and scale to meet net zero.

## Network investment and reinforcement is essential to meet net zero.

Research shows that network reinforcement and development is needed at an unprecedented pace in the next decade to decarbonise the grid and support the electrification of heat and transport.<sup>3</sup> The

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<sup>1</sup><https://www.nea.org.uk/news/30096/#:~:text=Ahead%20of%20National%20Energy%20Action's,crisis%20began%20in%20October%202021.>

<sup>2</sup>

<https://www.nea.org.uk/news/30096/#:~:text=Ahead%20of%20National%20Energy%20Action's,crisis%20began%20in%20October%202021.>

<sup>3</sup> Regen (2023). *Building a Great British electricity network ready for net zero* <https://www.regen.co.uk/>

long-wait times for connections, some of which are over 15 years, and the increasing cost of congestion management as shown in **Table 1**, is indicative of a grid management system that is outdated and is no longer fit for purpose for a new, net-zero electricity system made up of distributed energy resources. We do not believe that the current RIIO-2 and Connect and Manage model has been sufficient to result in an anticipatory building of the networks and instead Ofgem's consumer protection remit has delayed grid development from taking place at the pace and scale needed. For example, for the recent RIIO-2 period (2023-2028) which was completed in 2022, network reinforcements budgets proposed by the networks were reduced 17% by Ofgem.<sup>4</sup> We believe that Ofgem has taken a significant risk in potentially delaying transition to net zero in an effort to lower costs for consumers. The consequences of this are already posing a threat to the UK's net zero targets:

- Renewable energy generation and battery storage projects already in the pipeline are facing long wait times for high-voltage connections.
- If spare capacity predictions are correct, the distribution network headroom will run out in 2035, however this could be as early as 2028.<sup>5</sup> Anecdotally, we have heard of housing developers being forced to install gas boilers instead of heat pumps, simply on the basis that the distribution network cannot support them. We have heard similar stories regarding EV charging stations.
- Investment in network capacity has fallen behind generation deployment.<sup>6</sup> The UK government's success of achieving 50GW of offshore wind power<sup>7</sup> directly relies on the construction of sufficient transmission infrastructure to support extra supply.

The Connect and Manage approach is no longer sufficient to match the scale of change happening to the electricity network. Instead, this must be reformed to an anticipatory model, in which grid development takes place in advance of connections. This would significantly reduce wait times. With clear signals from government in their target to decarbonise the power system by 2035,<sup>8</sup> the volume of applications is likely to remain this high, or even increase further. As summarised by Dieter Helm, Economics Professor at Oxford University:

"If the networks are not sufficiently developed, there will be no net zero. If they are slightly over-invested, the costs across the whole customer base are small, and in any event the assets will in due course probably be needed."<sup>9</sup>

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<sup>4</sup> Regen (2023). *Building a Great British electricity network ready for net zero* <https://www.regen.co.uk/> p.24

<sup>5</sup> Regen (2023). *Building a Great British electricity network ready for net zero* <https://www.regen.co.uk/> p.22

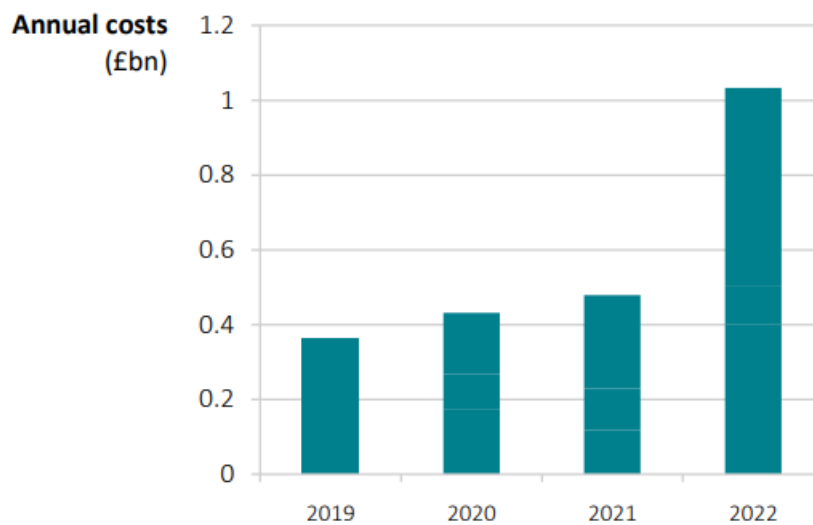
<sup>6</sup> Regen (2023). *Building a Great British electricity network ready for net zero* <https://www.regen.co.uk/> p.36

<sup>7</sup> <https://www.gov.uk/government/news/uk-signs-agreement-on-offshore-renewable-energy-cooperation>

<sup>8</sup> <https://www.gov.uk/government/news/plans-unveiled-to-decarbonise-uk-power-system-by-2035>

<sup>9</sup> Regen (2023). *Building a Great British electricity network ready for net zero* <https://www.regen.co.uk/> p.24

## The costs of managing grid constraints exceeded £1bn in 2022 as gas prices soared



Source: [ESO – balancing services summary](#)

Table 1: The cost of managing grid constraints found in Regen’s Building a Great British electricity network for net zero.

Network operators and energy suppliers must be able to make back their grid investment through electricity bills in some way. Offering products with a zero standing charge is uncommon because it increases the risk that a supplier will be able to recover the fixed costs.<sup>10</sup> We expect this is the reason why not many suppliers are offering these types of tariffs.

If standing charges were removed entirely, low energy users would pay less towards network charges. This could arguably be considered ‘fair’ as they have a low network demand and only use a small amount of network capacity. However, removing the standing charge would also favour those who have installed solar panels and batteries, as they will need to buy less units of energy over an annual period, reducing the amount they are paying towards network charges.<sup>11</sup> The MCS Foundation clearly wants policies that incentivise the installation of small-scale renewables, but we also value equity. Arguably these households take up a greater proportion of network capacity and should be paying their fair share of network charges. Additionally, due to limited Government grants, it will be predominantly higher-income households who can afford to install solar panels and batteries. For this reason, we do see some important risks with removing standing charges completely.

### The Government must play a stronger role and implement long-term policies to reduce fuel poverty in the UK

Whilst it is clear that the increasing cost of standing charges is having a negative impact on low-income households and that Ofgem has a role in protecting these customers, we believe that ultimately the Government must implement a suite of policies to tackle fuel poverty permanently.

Four policy options emerge from the causes of the price rise that would have a direct, positive impact on fuel poverty in the UK:

<sup>10</sup> <https://wearecitizensadvice.org.uk/why-standing-charges-are-fairer-than-you-might-think-0af937499149>

<sup>11</sup> <https://wearecitizensadvice.org.uk/why-standing-charges-are-fairer-than-you-might-think-0af937499149>

1. Use less gas – through improving energy efficiency and demand reduction measures, including the rapid deployment of renewables and new insulation grant schemes in both public and private sector housing.
2. Reform the way gas and electricity are priced – such as introducing social tariffs and ensure medium to long-term electricity price stability through the Reform of Electricity Market Arrangements (REMA).
3. Move environmental levies and other policy costs into general taxation to lower the price of electricity.
4. Introduce a windfall tax on gas and oil companies to fund energy efficiency improvements.

Home efficiency is a long-term and permanent investment, which not only lowers energy demand and consumer bills, but also addresses the wider strains on society; illnesses associated with fuel poverty is estimated to cost the NHS £2.5 billion per year.<sup>12</sup> Last winter the government spent over £37 billion on short-term, temporary solutions to the cost-of-living crisis, including fuel subsidies, instead of making valuable investments to permanently reduce energy bills.<sup>13</sup> With fossil fuel prices predicted to remain high until at least 2030,<sup>14</sup> we believe this is further reason to end our reliance on gas, through investment in energy efficiency and renewable energies.

Whilst the Government's Energy Security Strategy recognised the need to improve energy efficiency<sup>15</sup>, we do not find the proposals to address the issue proportionate to the scale and urgency. Whilst we support the continuation of the Energy Company Obligation with the announcement of ECO4, as well as the additional Great British Insulation Scheme (GBIS), we stress the need for these schemes to be more ambitious and designed to help the most vulnerable. Levying the £1 billion funding for GBIS on energy bills is counterintuitive, as it lays the financial responsibility onto the bill payers, which disproportionately effects those in fuel poverty. Equally, the installation statistics for both schemes are very concerning, falling drastically short of targets. For example, under GBIS there have only been 1,140 measures installed in 1,026 households from the end of March 2023 up to the end of October 2023.<sup>16</sup> The numbers for ECO are slightly more positive, with 42,300 measures installed in quarter 1 (Jan to Mar) of 2023, a 36 per cent increase compared to quarter 4 (Oct to Dec) 2022.<sup>17</sup> However, we are still far away from the 1.5 million measures that the Climate Change Committee predict that we need by 2025.<sup>18</sup>

The recent allocation of the £6 billion funding for energy efficiency improvements between 2025-2028 was fairly positive for clean heat and allocated £1.25 billion towards the Social Housing Decarbonisation Fund.<sup>19</sup> Whilst an announcement to launch a new scheme for energy efficiency could be a positive policy lever, the implementation and delivery are paramount to the success of a scheme. Furthermore, £400 million over 3-years is nowhere near enough funding in light of the scale of the challenge. For this reason, we strongly advocate a 10-year scheme funded by general government spending, with the flexibility to increase to £1 billion per year in line with the scale of the issue. It must almost be designed and implemented closely with industry to ensure that it is simple and encourages participation.

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<sup>12</sup> [Fuel Poverty, Cold Homes and Health Inequalities in the UK - IHE \(instituteofhealthinequity.org\)](https://www.instituteofhealthinequity.org/)

<sup>13</sup> <https://www.e3g.org/news/investing-in-energy-saving-solutions-could-save-billions/>

<sup>14</sup> <https://www.e3g.org/news/investing-in-energy-saving-solutions-could-save-billions/>

<sup>15</sup> <https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy>

<sup>16</sup> <https://www.gov.uk/government/statistics/great-british-insulation-scheme-release-november-2023/summary-of-the-great-british-insulation-scheme-statistics-november-2023>

<sup>17</sup> [https://assets.publishing.service.gov.uk/media/646f73fe243157000c6f42cb/HEE\\_Stats\\_Release\\_-\\_MAY\\_2023.pdf](https://assets.publishing.service.gov.uk/media/646f73fe243157000c6f42cb/HEE_Stats_Release_-_MAY_2023.pdf)

<sup>18</sup> <https://www.theccc.org.uk/wp-content/uploads/2023/06/Progress-in-reducing-UK-emissions-2023-Report-to-Parliament-1.pdf> p.150

<sup>19</sup> <https://www.housing.org.uk/news-and-blogs/news/social-housing-decarbonisation-fund-wave-3/>

Improving the energy efficiency of our housing stock is key to driving down energy costs and addressing fuel poverty. For example:

- Upgrading a home from Energy Performance Certificate (EPC) band D, which is the average rating in the UK, to EPC band C, the Government's target band for 2035, on average reduces heat demand of a home by 20%.

More stringent energy efficiency standards are required in the Private Rented Sector and an increase in council funding to enforce them.<sup>20</sup> The Government have been delaying the introduction of a Minimum Energy Efficiency (MEES) standard of EPC C for all rented properties by 2028. In 2021, the PRS had the greatest concentration of fuel-poor households, with 38% of all fuel-poor homes living in privately rented homes.<sup>21</sup> Two year later, at least one quarter of the approximately 4.6 million private rented households in the UK are living in fuel poverty.<sup>22</sup> Private renters are particularly susceptible to rising energy prices due to their lack of autonomy surrounding energy providers, tariffs, building fabric and heating systems. Recent research from citizens advice found that 31% of feel unable to heat their homes to a comfortable level, with 1.6 million children in privately rented homes living in cold, damp, or mouldy homes.<sup>23</sup>

Analysis undertaken by the Energy and Climate Intelligence Unit has found that renters could pay up to £1 billion more on electricity and gas bills as a direct result of delays to this regulation.<sup>24</sup> We urge the Government to take immediate action in legislating Private Rented MEES in the current Renters Reformer Bill and Energy Bill. This must be paired with better monitoring and enforcement to ensure compliance.

Moving existing environmental and social levies into general taxation would also have an immediate impact on bills. It is a progressive policy that would ensure the most vulnerable members of society, who may well be outside the tax system entirely, benefit from a reduction in bills. We also want to see targeted support mechanisms such as a social tariff based on income to alleviate the pressure on fuel poor households of rising energy prices. This should be funded via government taxation.

### **There are some low-regrets actions that could take place to address high standing charges**

Whilst we do not believe that scrapping a standing charge completely would be a prudent policy decision given the potential backlash on certain vulnerable high-energy users, there are some low-regrets policy actions that could be taken to support low-energy, vulnerable households. Most notably, we believe steps could be taken to protect households of pre-payment meters. These households have been acutely impacted by the rise in standing charge prices and currently pay a higher standing charge than direct debit customers.<sup>25</sup> Some of these households accrue debt from standing charges over the summer months and then are unable to access heating for the winter months before paying this debt. For this reason, the MCS Foundation would suggest the following policies :

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<sup>20</sup> <https://www.theade.co.uk/resources/publications/upskilling-for-low-carbon-heating-in-the-private-rented-sector>

<sup>21</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/998436/committee-on-fuel-poverty-interim-report-2021.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998436/committee-on-fuel-poverty-interim-report-2021.pdf)

<sup>22</sup> [UK-Private-Rented-Sector-MEES E3G-Briefing.pdf](https://www.uk-private-rented-sector-measures.org.uk/E3G-Briefing.pdf)

<sup>23</sup> [Damp, cold and full of mould \(citizensadvice.org.uk\)](https://www.citizensadvice.org.uk/damp-cold-and-full-of-mould/)

<sup>24</sup> <https://www.cornwall-insight.com/press/drop-in-power-price-predictions-up-to-2030-but-prices-to-remain-above-pre-pandemic-levels-for-next-decade/>

<sup>25</sup> <https://www.nea.org.uk/news/standing-charge-rises-low-income-households/>

1. Reallocating the standing charge to the unit rate for prepayment households only. Prepayment should not be the payment method for high usage vulnerable customers, owing to the likelihood of self-disconnection. Therefore, a standard reallocation of Standing Charges costs to the Unit Rate would be especially beneficial for this group.
2. A slightly less radical policy would be to introduce an exemption for gas standing charges during summer months. This would prevent consumers from having to pay a lump sum in order to get back on supply after the summer months, where they have not been using gas during those months.

**Short term policies, alongside long-term policies, can be implemented to support vulnerable high energy consumers**

1. The Government should offer access to the equivalent support to the Warm Home Discount for households where someone has a disability or long-term illness. Since the WHD eligibility no longer includes disability benefits, many high usage households are not receiving the financial support for energy bills that they were two years ago. The government should consider what more it can do to support households with a medical dependency on heat, without that support being to the detriment of low users.
2. Reallocation of costs from standing charge to unit rate supported by an equivalent rebate from government to cover the increased cost for vulnerable high users. Low usage households desperately need to see a reduction in standing charges. But this could create a negative outcome for vulnerable high usage households. The value of the increased unit rates could be supported through a government rebate, or EPG style mechanism to ensure that high usage households are not penalised.

**Conclusion**

The increase in standing charges over the past 4 years is disproportionately impacting low-income, low energy users, many of whom are struggling to pay their energy bills. Continuing with business-as-usual is unacceptable and Ofgem must continue to work with fuel poverty organisations to come up with a solution and/or a suite of actions that take into consideration all vulnerable groups. Equally important, Ofgem must ensure that network development and reinforcement take place at the pace and scale needed to decarbonise the grid and support the decarbonisation of heat and transport. Including a standing charge on people's energy bills to cover network charges is the least risky way for suppliers to recover initial investment. Based on this context, the MCS Foundation would argue that the Government needs to take a much stronger role in implementing no-regrets short (Warm Home Discount) and long-term (energy efficiency grants) policies to address fuel poverty.