

James Crump,  
Head of Smart Metering  
10 South Colonnade,  
Canary Wharf,  
London  
E14 4PU

19 January 2024

James,

### **Standing Charges – call for input – January 2024**

#### **What is the price cap?**

I'd like to start by asking the question "what is the price cap?". I ask this as a genuine question that I would appreciate a response to, please email me at [richard@over50smoney.com](mailto:richard@over50smoney.com). I ask this question because paragraph 3.17 of this document says:

*"The price cap is not a cap on the level of the standing charge or unit rate, but on the overall cost of supply at a certain volume. As long as the customer is not charged at a level above the relevant price cap for the volume of energy that the customer uses, how a supplier chooses to set the standing charge and unit rate is a commercial decision for them."*

This is not a definition I've ever seen, in fact I believe the common understanding is the opposite of this definition, that the cap is a cap on standing charges and unit rates, varied by region. Other popular figures in the industry seem to think the same, with Martin Lewis' MSE stating the following:

*"The Price Cap sets a limit on the maximum amount suppliers can charge for each unit of gas and electricity you use, and sets a maximum daily standing charge (what you pay to have your home connected to the grid)."*

I did email Ofgem asking this exact question over two months ago, but have received no reply to date, so I'd appreciate getting some clarity at your earliest convenience.

#### **Document questions**

The questions in the document seem to be more aimed at suppliers but I have provided insight where I can in the answers below. Being honest it is quite disturbing that Ofgem doesn't have the answer to some of these questions already. For example, question 5, "What are the reasons for regional variations in electricity standing charges?" don't you set the cap with region variations to the standing charges? Shouldn't this be something that the regulator that has been in place for almost 25 years should know?

My answers to the questions provided in this document are as follows:

**Answer to Q1, Q2, Q7, Q8, Q10:** Suppliers are seeing unprecedented profits in retail domestic energy right now, why would they innovate to help customers? Helping customers is supposed to be Ofgem's job, maximising profits for shareholders is the target of energy companies, so they won't innovate to help reduce the costs of customers if they don't have to.

Specifically in reference to zero-standing charge tariffs, this would put power in the hand of consumers to reduce their costs massively, and it would mean empty properties could pay almost £0

per year, compared to the c.£300 per year they are paying now in standing charges. So, again, why would a supplier want to reduce their profits this way? This is for Ofgem to regulate on.

**Answer to Q3:** You could reduce standing charges. Reverse the decision of the TCR, move network costs back to unit costs and help the lower income households by having significantly reduced standing charges. I do not believe it's ever been popular for suppliers to offer £0 standing charges for customers, and if they have then it was on a limited basis. Expecting suppliers to solve regulatory problems feels naïve at best.

**Answer to Q4:** No, this is not fair. Low income users are disproportionately impacted by high standing charges, it would be fairer to move some costs back from standing charges to unit rates, those that have higher usage and more use of the system should cover a proportionate amount of the cost. This would also help relieve some tension of the cost-of-living crisis on those households that can't lower their energy usage any further than they already have.

**Answer to Q5:** I believe this question is targeted at suppliers rather than consumer groups, I cannot provide any useful insight here.

**Answer to Q6:** Car and home insurance regulation changed recently to allow providers to offer different prices depending on how the customer contacts them, but not to differentiate prices between new and returning customers. This sort of policy could tie in with a ban on acquisition-only and retention-only tariffs, meaning all good deals are available to all customers. This would likely cause suppliers to offer varying tariffs to create incentives for the types of customers they want, e.g. if a supplier is looking for high-usage customers only then they could offer a tariff with reduced usage fees and high standing charges to attract high-usage customers from all over the market.

**Answer to Q9:** Ofgem need to focus on returning competition to the market, which previously led to many different tariffs being offered and huge savings for active participants in the market. If one positive thing has come out of the energy crisis, it's that a lot more people are engaged with looking at their energy usage and bills. Previously, it was only around 50% of the country that were engaged with energy switching and saving money, I believe it would be a lot higher now.

Currently, Ofgem have created a closed market, there is no competition. The Ban on Acquisition-only Tariffs (BAT) means suppliers are only offering fixed rate deals to current customers and not externally. Ofgem need to take two steps to turn the market from closed to open, these are 1. add a ban to Retention Only Tariffs (ROT), and 2. remove the BAT.

This would do two things, first removal of the BAT will mean suppliers can start offering tariffs to take customers away from their competitors, this will open competition quickly. Secondly, the ban on ROTs will mean suppliers that want to retain their customer base will have to offer great deals to their customers that are also available for other customers, opening great deals for the entire market. We've seen some fixed rate tariffs come back in the back end of 2023, but most of them are retention only because suppliers are trying to lock in their customers prior to the return of competition in the market. These great deals should be available to everyone and Ofgem could do this quickly.

**Answer to Q11:** I have no evidence to provide outside of common sense and intuition, which tells me that high standing charges have forced low-income low-usage users cut back their usage to an uncomfortable level to try to reduce their costs during this cost of living crisis. Conversely, the high standing charges have provided a reduction in average bills for high-usage households, meaning they



Consumer Champion for the Over-50s

are less incentivised to reduce their usage. In order to move closer to net-zero, we need high-income high-usage households to feel the pressure and start thinking about their energy consumption and reduce their usage. Lower standing charges and higher unit rates would be the best way to curtail high-income high-usage households.

**Answer to Q12:** Well, no, this an unrealistic hope. Any change will negatively impact someone, it's about helping the majority first, then targeting rules to specifically help those that are negatively impacted. Ofgem's analysis says that moving network costs from standing charges to unit rates will benefit 5 million low-income households and negatively impact 1 million low-income households, so the obvious conclusion is to make this move to the benefit of 5 million then look at measures to ensure vulnerable people that are part of the 1-million negatively impacted group are protected as best as possible.

**Answer to Q13:** I'm unable to provide useful insight to this question.

**Answer to Q14:** I'm unable to provide useful insight to this question.

#### **Additional points**

I hope the answers I've provided above are useful. The market, country and environment will all benefit from incentivising high-usage households to find ways to cut usage and from allowing low-usage low-income households to benefit from lower bills. Moving fixed costs from standing charges to unit rates does this, it gives more power to low income households to manage their finances in a way that benefits their family and it will incentivise high-usage households to cut down as they'll likely see a spike in their bills.

Kind regards,

**Richard Winstone**

**Director**

**Over50smoney**