

Thank you for this opportunity to contribute to the review of policy around energy standing charges. This response is submitted on behalf of the Baptist Union of Great Britain, the Methodist Church and the United Reformed Church.

The Churches' interest in this issue has been prompted by our longstanding concern about poverty in the UK, and specifically the recent experiences of local church and community leaders, who have noted the impacts of increasing energy costs, including standing charges, on people who are struggling to make ends meet. We are grateful for the clear and helpful consultation document which has offered further context to these experiences of churches, and the communities they serve.

The surge in energy prices was a central factor in the onset of the current cost of living crisis. Local churches reported significant increases in the numbers of people asking for support with food, clothing and to keep warm. Church and community leaders became increasingly aware of families who needed to take extreme measures to reduce their outgoings, including turning off heating, fridges, stopping cooking, and even removing light bulbs.

The three Church denominations responding here were partners in the 'Warm Welcome' initiative that last winter offered warm spaces to over half a million people, many of whom were struggling to heat their homes. Although energy costs have now falling slightly, these projects are still needed, and these experiences have informed this response.

As suggested in the consultation document, we have answered only selected questions, and grouped those we felt appropriate.

Q1: What are the barriers to suppliers using the existing flexibility under the price cap?

Q2: Why are suppliers not innovating on standing charges for tariffs not covered by the price cap?

Q3: What changes could Ofgem make to improve provision for lower standing charges under the cap?

Q7: Why do so few suppliers offer multi-tier or zero standing charge tariffs to their customers?

Q8: Why are zero standing charge tariffs no longer offered in the market, with the exceptions cited in this paper?

These questions ask why suppliers do not make the choice to offer low or no standing charge tariffs that are attractive to customers. While we have little insight into these decisions, we would wish to emphasise that any regulation-compliant domestic tariff should be suitable for low-income customers.

While some customers may be able to shop around for the optimal tariffs for their circumstances, that choice is not a reality for many low-income families.

Families in private rental properties are often discouraged or forbidden from changing supplier. If changes are permitted, renters who move frequently have less incentive to invest time in looking for the ideal tariff, and less knowledge about the property to understand the optimal balance between standing charge and unit energy patterns.

For a myriad of reasons some people, especially those on low incomes, will simply not be able to make a truly informed decision around the optimal tariff for their circumstances, or be tied to a supplier or tariff which given the choice they would prefer to avoid. Therefore, while market innovation may be beneficial, it cannot be sufficient to protect low-income families.

Q4: 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?

The Churches are supportive of the recommendation 12 of the Energy Security and Net Zero Select Committee report “Preparing for the winter”¹ regarding replacing the standing charge model with a rising block tariff based on per unit cost.

As noted in the consultation document, electricity standing charges rose from on average £86 to £186 between 2021 and 2023. The underlying principle of the targeted charging review which drove this increase was that network, policy and operating costs could be charged on a per connection basis rather than a per unit consumed basis. The consultation document recognises that this choice had a regressive outcome, disproportionately affecting low-income families who tend to use less energy.

The consultation document helpfully lays out the different components of the operating and network costs and how they are charged internally. It however offers no explanation of why these costs might vary on a per connection rather than a per unit basis, and indeed the £4.5Bn “balancing use and distribution” costs explicitly vary by volume. The justification for charging for increases in these costs solely on a per connection basis therefore appears very weak.

The conception of fairness that underpins the current structure places higher charges for essential goods on low-income families. Therefore, in order to be considered “fair” they would require very strong alternative justifications, which are absent. The more common conception of fairness in a market is that charges are proportional to use. That in turn should mean that the supply chain costs are embedded in the unit cost. The consultation document offers no evidence as to why that principle should not be the basis energy price charging.

An important aim of what the Churches would judge as “fair” is a system where every household can meet their basic energy needs. We recognise this would require changes well beyond energy policy, but a system that on average places a disproportionate burden on the poorest makes fairness harder to achieve.

On a more practical basis, the direct linkage of energy use to cost allows families more control of their expenditure. Churches regularly see people who are going without heat, cooking facilities and are even moving light bulbs from room to room as a way of managing their outgoings. For families like this, making little or no use of the energy system, it feels deeply unfair and unhelpful for them to still be required to pay a substantial amount in standing charges. While we would rather be in a situation where no-one felt they had to go without such basics as heat and light, if people do find themselves in that position of privation, it is reasonable to expect that by making such choices, their energy bills can be substantially reduced or eliminated.

¹ <https://committees.parliament.uk/publications/41531/documents/204850/default/>

While this response has focussed on issues around poverty, the Churches are also committed to achieving our national net zero targets. Directly linking energy use to cost would advantage both those who are forced to reduce their consumption for financial reasons, and those who choose to reduce their consumption as part of their commitment to sustainability.

We welcome the recommendation of the Energy Security and Net Zero Select Committee of a rising block tariff, as it would provide greater incentives to higher energy users to reduce consumption while protecting lower energy users. This would make investment in energy efficiency measures more attractive and reduce their time to pay off.

Q13: How can we identify the complex needs of vulnerable customers and ensure that they are able to receive tariffs that benefit them the most?

The document rightly emphasises that any change will have complex effects, and that the relationship between low income and low energy consumption is not absolute. Some low-income families have high energy use, often as a result of disability and/or poor-quality housing. This means that a significant number of low-income families would lose out if energy costs were directly linked to energy use.

However, the modelling offered for electricity charging suggests that while 1.2 million low-income households would lose out, 5.5 million low-income households would gain, and that low-income households would in total pay £65m less for their electricity. The figures for gas are that net 1.9 million low-income households would gain, with a total reduction of £48.3m from the bills of low-income households.

On balance, we believe that these are substantial benefits that should be grasped. If the charging structure already directly linked prices and supply, it would be unthinkable to move to today's model and disadvantage 5.5 million low-income families. The repeatedly-made point that changes are complex is not an argument not to make the changes, but to make them carefully with well-designed mitigations.

The government has announced its intention to consult on a social tariff in energy, equivalent to that currently available to vulnerable water and telecoms customers. The Churches would join the many others across industry and civil society in supporting the introduction of a social tariff for energy, and believe it is an appropriate policy tool to assist the vulnerable families that would lose out if standing charges were reduced.