

ACS Submission - Ofgem standing charges – call for input

ACS (Association of Convenience Stores) welcomes the opportunity to respond to Ofgem's call for input on standing charges. ACS represents 49,388 local shops and petrol forecourt sites including Co-op, BP, Rontec and thousands of independent retailers, many of which trade under brands such as Spar, Budgens and Nisa. These retailers operate in all locations, such as neighbourhoods, villages, on petrol forecourts and in city centres, but our primary trading location is in secondary shopping areas close to where people live and work.

Due to the unique requirements of convenience retail, which include extended business hours and the need for continuous refrigeration and equipment use, energy costs are a significant financial concern. These costs are not just overhead expenses; they play a pivotal role in determining the economic viability and sustainability of convenience store operations. The energy-related expenses, including electricity, heating, and cooling, form a substantial portion of the operational costs for these stores. This high dependency on energy makes convenience retail particularly sensitive to fluctuations in energy prices, which can directly impact the bottom line of these businesses.

Retailers resonate strongly with the assessment outlined in the Call for Input document, which notes that standing charges have seen a significant increase since 2020. This trend is observed across convenience stores of various sizes, though we do not have data concerning regional variations in these charges. Nonetheless, the overall trend points towards a steep rise in these fixed costs.

Some retailers have reported a drastic increase in their daily standing charges, with some paying over 16 times more per day than they did in 2020. This steep increase places an enormous financial strain on convenience store operators, many of whom operate with slim profit margins.

Retailer energy bills have escalated significantly in line with the rise in wholesale energy costs, with both unit rates and standing charges experiencing drastic increases over the past year. However, since 2022, there has been a particularly sharp escalation in standing charges, far outstripping the increase in unit rates. This discrepancy allows suppliers to appear more competitive by promoting attractively low headline unit rates. Ratepayers, enticed by these seemingly competitive unit rates, may not realise that they are compensating for these 'cheaper' rates through excessively high standing charges. This tactic obscures the true cost of energy, as the burdensome standing charges often overshadow any perceived benefits from the lower unit rates.

ACS recommend the following:

- Increase competition in the energy supplier market by promoting greater transparency, enabling consumers to compare costs easily.
- Ensure it is straightforward for customers to distinguish between day rates, night rates, and standing charges before selecting an energy supplier.
- Adopt a standardised pricing model for energy to promote transparency, reduce price volatility and allow for easier comparison of costs.
- Place a cap on standing charges to control and limit their increase.

If you have any questions about this submission, please contact
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Q14: What issues affecting standing charges in the non-domestic retail sector should we consider further?

Over the last decade, standing charges in the energy sector have been on a steady upward trajectory. However, this increase has become particularly steep since 2022. An illustrative example can be found in the appendix, which details the energy bills of a retailer in Leicestershire with British Gas. The data shows a marked increase in standing charges from 2020 to 2023. In 2020, the retailer faced a weekday unit rate of 13.15p per kWh, with standing charges at 23p per day. Fast forward to 2023, and the same retailer encountered a unit rate of 31.77p per kWh, with their standing charges skyrocketing to 388.24p per day. This represents an increase of nearly 142% in the weekday unit rate over three years, but an astronomical 1588% (over 16 times) increase in standing charges.

Suppliers have managed to keep their unit rates relatively low, a strategy aimed at attracting ratepayers. However, they have significantly raised their standing charges. This increase in standing charges is not solely a response to rising wholesale energy costs; it also encompasses the growing expenses related to network and distribution costs. By doing so, suppliers have shifted a considerable portion of the financial burden onto the ratepayers.

While it's understood that increases in wholesale energy costs and network costs might need to be passed on to consumers, businesses may find it challenging, if not impossible, to absorb these heightened costs. The situation is exacerbated by the limited support from the government through initiatives like the Energy Bill Support Scheme, which runs until March. Unfortunately, this scheme falls short in targeting specific businesses or sectors that are most impacted by these increases in energy costs.

There is a fundamental need for more action to foster competition in the energy market. This would entail requiring suppliers to clearly disclose their standing charge rates, day unit rates, and evening unit rates. Such transparency would empower ratepayers to make informed decisions and avoid any hidden fees. Only with this level of clarity can there be a fair and competitive market that does not disproportionately disadvantage small and independent retailers.

If you have any questions about this submission, please contact
Jordan.newfield@acs.org.uk

Appendix: Standing Charges

2020 rate, 23p per day

Details of charges									
S [REDACTED]			Meter ID [REDACTED]						
Previous Reading			Current Reading			kWh	Rate	Charges	
Weekday Day Unit Charge									
492095	READ	1 Aug 2020	494266	READ	1 Sep 2020	2,171.00	13.150p	£285.49	
Evening & Weekend Unit Charge									
380046	READ	1 Aug 2020	382039	READ	1 Sep 2020	1,993.00	10.020p	£199.70	
Night Unit Charge									
204646	READ	1 Aug 2020	205887	READ	1 Sep 2020	1,241.00	8.700p	£107.97	
Electricity Charges exc VAT								£593.16	
Standing Charge						31.00 days at 23.000p		£7.13	
Climate Change Levy (CCL)						5,405.00 kWh at 0.811p		£43.83	
Total charges exc VAT								£644.12	
VAT at 20%								£128.82	
Total new charges this bill inc VAT								£772.94	

2021 rate, 32.94p per day

Details of charges

S [REDACTED]		Meter ID [REDACTED]							
Previous Reading			Current Reading			kWh	Rate	Charges	
Weekday Day Unit Charge									
521856	READ	1 Oct 2021	523912	READ	1 Nov 2021	2,056.00	16.580p	£340.88	
Evening & Weekend Unit Charge									
403164	READ	1 Oct 2021	404817	READ	1 Nov 2021	1,653.00	14.870p	£245.80	
Night Unit Charge									
219820	READ	1 Oct 2021	220804	READ	1 Nov 2021	984.00	11.130p	£109.52	
Electricity Charges exc VAT								£696.20	
Standing Charge						31.00 days at 32.940p		£10.21	
Climate Change Levy (CCL)						4,693.00 kWh at 0.775p		£36.37	
Total charges exc VAT								£742.78	
VAT at 20%								£148.55	
Total new charges this bill inc VAT								£891.33	

2022 rate, 33.57p per day

Details of charges

S			Meter ID						
Previous Reading			Current Reading			kWh	Rate	Charges	
Weekday Day Unit Charge									
534913	READ	1 Apr 2022	537090	READ	2 May 2022	2,177.00	28.210p	£614.13	
Evening & Weekend Unit Charge									
411998	READ	1 Apr 2022	413760	READ	2 May 2022	1,762.00	23.110p	£407.20	
Night Unit Charge									
225629	READ	1 Apr 2022	226638	READ	2 May 2022	1,009.00	17.110p	£172.64	
Electricity Charges exc VAT								£1,193.97	
Standing Charge						31.00 days at 33.570p		£10.41	
Climate Change Levy (CCL)						4,948.00 kWh at 0.775p		£38.34	
Direct Debit Discount								£84.31	
Total charges exc VAT								£1,158.41	
VAT at 20%								£231.68	
Total new charges this bill inc VAT								£1,390.09	

S [REDACTED]

Meter ID [REDACTED]

Previous Reading	Current Reading	kWh	Rate	Charges				
Weekday Day Unit Charge								
576749	READ	1 Oct 2023	579113	READ	1 Nov 2023	2,364.00	31.770p	£751.04
Evening & Weekend Unit Charge								
443248	READ	1 Oct 2023	444948	READ	1 Nov 2023	1,700.00	25.650p	£436.05
Night Unit Charge								
245961	READ	1 Oct 2023	247121	READ	1 Nov 2023	1,160.00	19.910p	£230.96
Electricity Charges exc VAT							£1,418.05	
Standing Charge		2 Oct 2023 to 1 Nov 2023		31.00 days at 388.240p		£120.35		
Climate Change Levy		2 Oct 2023 to 1 Nov 2023		5,224.00 kWh at 0.775p		£40.48		
Direct Debit Discount		2 Oct 2023 to 1 Nov 2023				£107.69		
Total charges exc VAT							£1,471.19	
VAT at 20%							£294.23	
Total new charges this bill inc VAT							£1,765.42	