

# The Centre for Sustainable Energy (CSE) response to Ofgem's Standing charges – call for input



## About Us

We're a charity supporting people and organisations across the UK to tackle the climate emergency and end the suffering caused by cold homes. We do this by sharing our knowledge, practical experience and policy insights. For over 40 years, we've supported people to take effective action on energy in their homes. We help communities and local councils to understand energy issues, set priorities, and put plans into action. Our research and analysis focus on making the energy system greener, smarter and fairer. Through our advice line, home visits and one to one support, we support around 15,000 people a year to reduce their bills and make their homes more energy efficient.

We deliver fuel poverty services for two of the electricity network operators and six local authorities. Through these services we support thousands of people of low incomes who often have multiple vulnerabilities. They are unable to navigate the energy market without our support. Our support helps them find an amicable solution to their issue which ultimately helps the energy supplier by lowering their unserviceable debt, reducing customer service enquiries and reducing the number of interventions they face from the ombudsman. Our response here is informed by the experience of the thousands of people we speak to in fuel poverty every year, and our own research exploring the path to net zero and ending fuel poverty.

## CSE's response

We support the move to reform standing charges and tackle energy affordability, particularly for those who are struggling the most and at highest risk from the ill effects of living in cold damp homes. As documented in the call for evidence the scale of cost associated with standing charges has grown significantly over the last few years, and these costs have a disproportional impact on the bills of vulnerable people who are struggling to meet their basic energy needs.

We would urge the regulator to prioritise action on standing charges in 2024 and introduce fundamental reforms before next winter. The current system of pricing isn't fair and there's been insufficient consideration of the existing domestic standing charges i.e. what's reasonable to include in them and those elements of network costs which can be moved to the unit rate.

We believe that Ofgem should develop a comprehensive programme of work to analyse each aspect of standing charges, including network and grid costs, supplier operating costs and policy costs. The ultimate goal should be to shift as much of these costs as possible to the unit rate or transfer them from electricity to gas to balance the cost of these fuels. We also suggest a more detailed analysis of the future costs to manage and reinforce our networks. Since those who consume more energy at

peak times put the greatest strain on the network, it could be argued that this group of households should contribute more to these costs. Ideally, significant costs would be removed altogether and transferred to general taxation (e.g. policy costs, supplier debt protection), but we acknowledge that this is a political decision and outside of the control of Ofgem.

The following summarises the key reforms and actions we would like to see:

- A review of the existing standing charges to reduce the fixed element to the lowest amount possible. This provides a two-to-three-year plan of revision to standing charges. See Q3 for further discussion.
- Ofgem should then publish a paper showing:
  1. The assumed tariffs for their analysis i.e. the existing price cap and the revised costs where standing charges have been moved to the unit rate or elsewhere. N.B. This will enable others to do their own analysis.
  2. Distributional impacts associated with the changes and the characteristics of any vulnerable or low-income households who lose out.
  3. Options for mitigating these distributional impacts, or where possible, reforming tariff design to do so. There are a number of options for doing this explored in table 1.
- A long-term plan for the recovery of fixed system and network costs. As we move to a point where the smart meter rollout passes two thirds of households, there will be a greater opportunity for more dynamic time of use or product related charging. The way standing charges are then collected needs a more fundamental examination.

## Standing charges, network charges and the price cap

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

There's no incentive to add any risk to their cost recovery model.

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

As above it introduces risk for them, but it will also most likely have a lower profit margin.

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

We support the reform of standing charges and review of the burden they place on low-income/vulnerable customers who use less energy and can't afford these unavoidable costs. However, we acknowledge that some elements of energy costs are fixed and expect that some element of standing charge will remain in the absence of major tariff reforms.

Ofgem's preliminary modelling moves half the standing charge to the unit cost, which is comparable to the Targeted Charging Review element of the network costs in the standing charge. However, we

feel that a more evidence-based approach is needed. The standing charges need to be analysed and assessed for their fairness. For example:

- Policy costs should be moved to taxation or gas bills as a way of equalising fuel costs.
- SOLR should be moved to taxation as it represents a market failure and customers, particularly vulnerable ones, shouldn't be paying. This includes the costs of the Special Administration Regime (SAR) as a result of Bulb's failure.
- The TCR costs should be examined in more detail to better understand consumers' future relationship with the grid (see Q4 below).

Once the standing charges have been analysed, we advocate moving as much as possible of the standing charge to the unit rate. This is more progressive with those who use more energy paying a more proportionate share of the network costs. However, there are some vulnerable groups who have high energy demands who will need protection (elderly / disabled / medical need for energy / E7 and low income). We have provided further details of how to identify and protect these vulnerable groups in question 12.

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?

Focusing on time of use, not just volume

A fairer future energy system requires a fair distribution of the costs of grid upgrades and maintenance. Moving the costs identified in the TCR to the electricity unit rate would be progressive; those using the most would contribute the most. However, there are two types of customers who have low consumption: Group 1 are low- and no- income households with small homes and few high consuming appliances who restrict their energy consumption. It is appropriate that these households contribute proportionally to network costs. Group 2 are high income households with large home, large generating assets and storage assets. These households are able to use the electricity grid as a back up when their own generation does not meet their demand, and to earn revenue through for example, selling their excess generation and selling their flexibility. It is appropriate that these households contribute proportionally more to network costs. This could be through general taxation, where higher income households contribute to decarbonisation policy costs. It could also be through adding network costs to export or flex revenues.

Network costs that relate to increasing capacity at peak times should be paid for by those creating the demand at these times (while protections should be in place for those vulnerable customers unable to shift or flex their demand). More analysis is needed to understand the distribution of network costs across domestic import, export and flexibility profiles, to inform the tariff structures that might be used to tackle inequalities and create a fair allocation of costs.

There are a number of Time of Use tariffs currently available. Incorporating the network peak capacity costs into peak rates should be considered. We believe a fair Time of Use tariffs should:

- Encourage electricity usage outside peak times.

- Avoid penalising those with certain types of loads. Currently on the market the cheapest overnight rates are available to people who own EVs. The cheap rate applies to all electricity imported, not only the electricity used to charge the vehicle. Households with high heat retention night storage heaters could benefit from the tariff, but they are excluded from it and can only access a time of use tariff with a higher rate.
- Ensure those who continue to have high usage at peak times, thus putting the greatest strain on the network, pay proportionately for the costs of the capacity their usage requires.
- Provide protections to those consumers who due to low incomes or disabilities are unable to flex their usage and have no choice but to use energy at peak times.

#### Fair recovery of future energy costs

In addition to investigating a way to make tariffs more progressive, we also advocate for additional research to gain a better understanding of the fairest approach to recovering future network costs. This includes consideration for the cost of decommissioning the gas network. We support Sustainability First's assertion that it would be beneficial to consider spreading the cost of upgrading the network (in order to achieve net zero) over a much longer time period. This approach would ensure that the financial cost is shared among generations who stand to derive the most benefit from this change. It would be helpful to have further information from Ofgem which shows what proportion of the network costs are for maintenance and what proportion are for upgrading the network. This information would help with modelling fairer options for who and how these costs should be met.

#### Gas standing charge

While we are calling for measures to shield consumers from increases in the electricity unit rate, the modelling provided by Ofgem shows that the impact of moving the gas standing charge to the unit rate carries much less risk for low income households. Given the issues that consumers, especially those on prepayment meters, face caused by their standing charge being separate from the unit rate, we would support a full move of the standing charge for gas to the unit rate. Here are some examples of customers on gas PPM who would benefit from this:

- Customers who chose to have their gas capped to avoid the standing charge. These customers typically have gas central heating. Without it, they are left with the only option of heating water and space with electricity, which we know costs 2-3 times more than gas.
- Customers who are unable to have gas safety checks due to not having sufficient credit on their gas meter.
- Customers who lose 75% of their top-up due to paying previous standing charge payments for days when they didn't use any gas.
- Customers who find large standing charge debts on their meter after a summer of not using gas at all.

If a complete move isn't acceptable, we would hope that you would consider it for PPM customers as these are most affected by the above issues. If this is not possible, we would support Fair by Design and NEA's suggestion that there is an exemption from paying the standing charge where no gas has been used for a period of time.

### Shielding vulnerable high use, low-income consumers

While moving the fixed network costs to the unit rate would be progressive the negative impact that it would have on some client groups is significant. The example below highlights the importance of bringing in mitigations to protect people low income, high usage customers who have no choice but to use energy when they do.

Mrs Smith

- Lives in a 2 bed, council owned end terrace bungalow with her daughter. She is not on the gas grid, and has night storage heaters and an immersion tank for heating and hot water.
- She has rheumatoid arthritis and a mental health problem which are both exacerbated by the cold and is on the Priority Services Register (PSR).
- She does not work due to her health conditions and receives Universal Credit, Personal Independence Payments and Child Benefit.
- She only has heating on for 2 hours in the morning and 2 hours in the evening, despite being very cold during the day when her daughter is at school.
- Not heating her home adequately means that the cooler air has less capacity to hold moisture and she has damp and mould. This is on the walls, furniture and inside cupboards. She treats this regularly and ventilates the house.
- Her daughter has had chest infections and eye irritation likely caused by the mould.
- Her energy bill is £10 a day during winter, which she cannot afford and is in debt with her supplier.
- Were the standing charge to be moved to the unit rate, we estimate her bill would increase by around £150 per year making it even harder for her to keep her and her daughter warm and their home mould free.
- In addition to the changes to her bill there will also be a net benefit to the health service if she is able to adequately heat her home, particularly in relation to her daughters respiratory conditions and her arthritis.

### Q5: What are the reasons for regional variations in electricity standing charges?

#### Locational wholesale pricing

Any assessment of standing charges on a regional basis needs to be done alongside the work Ofgem have done on locational wholesale pricing. This showed that people tend to save money if wholesale pricing has a locational aspect (albeit with key regional variations). Therefore, it may be that the benefits from a locational view on a wholesale cost are offset by the regional standing charges. We would support further exploration of wholesale pricing and standing charges having a locational aspect. For example, those in rural areas could have higher standing charge due to increased costs of maintaining the grid but lower wholesale cost of energy due to nearby power generation.

### Q6: Can we learn from other sectors about how to improve suppliers' tariff offering in the UK energy market?

No comment.

## Standing charges and the domestic retail market

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

There's no incentive and it increases their risk of recovering any fixed costs.

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

See Q7.

Q9: What measures could Ofgem take to improve the range of tariffs available to domestic retail customers?

Average price caps could be set for target groups (e.g. those on electric only, those with disabilities) that we wish to protect. Because Ofgem favours a principles-based approach to regulation, how these groups are identified could be left to supplier with Ofgem providing guidance on different approaches. Suppliers would not be under a target to identify 100% of these groups but a reasonable threshold could be set which Ofgem could then evaluate performance by, e.g. 80%. Suppliers would then be free to come up with their own methods.

Q10: Why do no suppliers offer rising block tariff products at present? Would these products offer benefits to consumers?

Rising block tariffs would struggle to make profit unless mandated

Rising block tariffs are not attractive for suppliers unless mandated for all. Customers would only choose a rising block tariff if they were cheaper than alternatives. It was previously financially viable for suppliers to offer a range of cheaper tariffs because they were making higher profit on those customers on the standard variable tariff. Now that the standard variable is capped, offering a range of cheaper tariffs (including rising block) is no longer a profitable option.

Standardisation of energy bills is needed for consumer clarity

In our experience our clients are already finding energy bills complicated and difficult to decipher. Our advisors have noted the differences between different energy suppliers' bills and how hard it is to provide any guidance to help clients because there is so much variation. We would therefore welcome a move towards standardisation of energy bills.

Added bill complexity = harder to empower consumers and resolve issues

We support consumers to resolve a large numbers of billing errors from energy suppliers each year. Introducing a more complicated billing system would likely lead to more mistakes that are harder to identify and resolve unless higher standards for customer service are imposed on suppliers.

Rising block tariffs would require a smart meter

A rising block tariff would only be possible for customers on a smart meter and there are issues with uptake of this technology.

Using rising block tariffs as a more palatable social tariff

Were the above issues resolved, rising block tariffs could offer a positive solution. High consumption users would pay more towards the network costs and those identified as being vulnerable could be kept on the lowest block no matter their usage. This would mean that while most consumers would pay more for using more energy and therefore would be incentivised to cut their usage, those in the identified group would find paying their high energy bills more affordable.

Q11: How significant an impact do standing charges have on customers' incentives to use energy efficiently? What evidence can you provide that this is the case?

Increasing unit rate encourages energy efficiency

Generally, increasing the unit rate incentivises lower usage and encourages uptake of energy efficiency measures and renewable technology. Following the increase in the unit rate of energy in 2022, [domestic usage dropped](#). Meanwhile, last year saw the [highest rates of rooftop solar installation in 12 years](#). As unit rates increase, the payback periods for energy saving and energy producing measures reduces, making them more attractive to consumers. This is converse to Ofgem's assertion in section 5.13 that moving charges from unit costs to standing charges could lengthen the period it takes for a customer to recover the upfront outlay on energy efficiency measures such as home insulation through cost savings.

There is an agreed need to transition to renewable heating options like air source heat pumps however the current relatively low cost of gas means that there is not a financial incentive to switch from gas to electricity. DES NZ has expressed its goal of making it easier for consumers to switch to green products by rebalancing prices between electricity and gas. It may be useful to explore whether changes to standing charges could be a tool to facilitate this transition. For example, moving some of the policy costs (or indeed some of the electricity network costs) from electricity to gas.

Q12: Are there any forms of intervention in standing charges that Ofgem might consider that would minimise the risk of producing negative outcomes for some customers?

Identifying the hardest hit groups has been a constant theme of our work at CSE and we've built significant programmes of work around this e.g. Consumer Archetypes for Ofgem and PSR mapping / gap analysis for DNOs. If the call for input goes to full consultation, then we would recommend that Ofgem publishes detailed analysis of the impacts using the Consumer Archetypes<sup>1</sup> and associated demographic summary data that CSE produced for them.

The process should be as follows:

1. Identify the approaches to reforming standing charges i.e. option 1: move the TCR element of standing charges to the unit rate; option 2: move all the standing charges to the unit rate and option 3: no change.
2. Publish the tariffs to be used i.e. revised unit rates and standing charges.
3. Characterise the winners and losers from the above.
4. Outline possible methods of identifying the losers e.g. data matching with DWP for a benefit that correlates well with the group.
5. Identify and test a range of options for protecting this based on previous research<sup>2</sup> and the responses to this call for evidence. See table 1 below for a summary of the past discussions with industry and policy colleagues.

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<sup>1</sup> As a caveat when using the Living Cost and Food Survey data that underpins the archetypes to model potential changes it is important to bear in mind that the usage figures are based on actual expenditure converted to usage. We know that these figures do not provide a detailed picture of those who currently underheat their heat homes.

6. Present the findings and ask for feedback.

Table 1 below presents some of the mitigation options that have been proposed or considered and our initial view on how realistic their implementation would be (in the absence of major market reform).

**Table 1: Potential mitigation approaches for vulnerable customers**

Option	Description	Ease of implementation
Targeted Bill support	Identified customers would be credited with money on their account or vouchers if on dumb prepay.	Relatively easy if the target group can be identified, although there are long standing issues with prepay customers not claiming vouchers.
Standing charge exemption	This would offer target groups of customers an exemption from standing charge recovery e.g. people with particular PSR needs codes and / or those using economy 7 for heating.	If the target group can be identified it would be easier from a billing perspective as the volume of usage wouldn't be a consideration. The additional cost to those outside of this group would need to be examined to see if new losers are created.
Protected block of units	As proposed by Age UK this would offer target group customers a number of kWhs per day which are free from the standing charge.	Under the current system of metering, a protected block would be hard to implement for people on dumb credit meters. Smart metering would make implementation easier.
Rising block tariff (RBT)		Under the current system of metering, RBT would be hard to implement. Smart metering would make implementation of RBT easier, but is more likely to favour 'time of use' tariffs, Energy tariff options for consumers in vulnerable situations which are fundamentally different to RBT as they consist of different rates at different times of day.

We would argue that any changes to standing charges offer a short-term fix i.e. two to three years. As we move to appoint where the smart meter rollout passes two thirds of households there will be a greater opportunity for more dynamic time of use or product related charging. The way standing charges is then collected needs a more fundamental examination.

We therefore also recommend further analysis of smart meter data (or those datasets that contain detailed consumption profiles) to better understand the issues we discussed in our response to Q3. As discussed, we feel that network costs that relate to increasing capacity at peak times should be paid for by those creating the demand at these times (while protections should be in place for those vulnerable customers unable to shift or flex their demand). This knowledge needs to be used to inform how we design and regulate the energy market in the near future.



### 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 Priority Services Register (PSR) provides one way of identifying those vulnerable customers who need support. We would advocate the use of the PSR to help target future interventions to mitigate the impact of standing charges – particularly for those households that have a medical need for electricity or at greater risk from cold related illnesses. For example, Air Liquide offers compensation to clients who have their breathing apparatus due to the high energy cost. Something similar could be provided for customers who rely on electricity for hoists, automatic doors, stair lifts, electric wheelchairs and mobility scooters.

Over the last five years there have been considerable efforts across the industry to improve the quality and depth of the PSR. This includes cross-sector utilities working groups and cross-regulator working between Ofgem and Ofwat. Despite this there remains more that could be done to improve data sharing between different utilities (who at present hold different lists). A unified PSR has been suggested as a key output from this cross-utility collaboration.

In addition, the PSR needs codes should be reviewed against the household smart energy capabilities required to access and benefit from a more flexible energy system with time variable pricing and new tariffs. Currently there is a lack of evidence about how vulnerabilities interact with new risks and benefits created in a lower carbon energy system.

#### Improving knowledge of the PSR

We have spoken to teams who administer the Disabled Facilities Grant within local councils who were unaware of the necessity of clients who rely on electricity for their health being on the PSR. In addition, many professionals such as occupational therapists and community physiotherapists have similar gaps in their knowledge in regard to the PSR. We would recommend further targeted work is done to ensure that all professionals working with vulnerable people who should be on the PSR are aware of the benefits and how to refer.

#### Making tariffs fair and accessible

We note that customers well off enough to afford electric vehicles have access to the cheapest night rates available i.e. tariffs that are specifically for EV customers only. A customer with an electric vehicle and electric mobility scooter could charge their mobility scooter for half the price of someone who doesn't have an electric vehicle. We've also seen customers with night storage heaters who'd be better off on an EV tariff but have been refused the ability to switch to it (because they don't have an EV).

#### Targeting electric only households

People on electric only heating are more likely to be in fuel poverty than those on gas, and will be more affected by an increase in the unit rate. If it is possible to identify electric only households, or at the least, economy 7 only households and offering them extra support that might be a way of targeting one group who would be worse off.

#### Gaps in vulnerable customer target options

When considering how best to target vulnerable customers, it is worth noting that there are large numbers of households who are not receiving the benefits they are entitled to or on the Priority Services Register. Please see table 2 below. We unfortunately aren't able to provide any numbers on

the extent and accuracy of the PSR, but we would welcome some gap analysis to underpin any future consultation.

**Table 2. Numbers missing out on benefits and PSR**

Benefit	Estimated numbers missing out
Universal Credit	1,225,000 [1]
Carers Allowance	500,000 [1]
Pension Credit	850,000 [1]
Child Benefit	765,000 [1]
Warm Home Discount	2,092,13 [1]
Priority Services Register	*
Personal Independence Payments	600,000 [2]
Attendance Allowance	1, 100,000 [3]

[1] Policy in Practice (<https://policyinpractice.co.uk/wp-content/uploads/Missing-out-19-billion-of-support.pdf>)

[2] Based on the number of working age people who can't work due to their disability but aren't receiving Personal Independence Payments. Written questions and answers - (<https://questions-statements.parliament.uk/written-questions/detail/2023-03-01/156196>)

[3] Policy in Practice (<https://policyinpractice.co.uk/unclaimed-aa>)

\*These figures are not in the public domain but from the work we do with DNOs and GDNs we are aware of a substantial PSR gap.

### Using the Warm Home Discount to target clients

We welcome the fact that the Warm Home Discount is now largely an automated process without the need for clients to opt in. However, we find a number of issues with the new system, especially for clients in social housing or who are homeowners who do not have EPCs and cannot afford to get them to prove the high heat cost of their property. Were the Warm Home Discount to be used to further support vulnerable households we would need to see an improvement in this system. For example, agreement that neighbours EPC data can be used where the household does not have an EPC and for disability benefits to be added to the list of eligible benefits.

We would also argue that those households whose high electricity consumption puts them at risk need to be eligible for WHD regardless of their EPC status. This is particularly relevant for those with disabilities who are no longer part of the broader group due to changes in the eligibility rules.

## Standing charges in the non-domestic retail market

Q14: What issues affecting standing charges in the non-domestic retail sector should we consider further?

No comment.