

National Energy Action (NEA) response to the Standing Charge Call for Input

About National Energy Action (NEA)

NEA¹ works across England, Wales, and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.



Background to our response

NEA has consistently advocated for the need to address high standing charges. Standing charges particularly for electricity, have increased significantly over a few years. Dual fuel households are currently paying upwards of £300 a year. Standing charges significantly impact prepayment households and their ability to maintain energy supply, leading to more instances of self-disconnection and for longer periods, in addition to impacts on consumer physical and mental wellbeing. High standing charges also drive worse coping/self-rationing strategies. NEA is therefore pleased to see that Ofgem has released this Call for Input regarding standing charges and want it to lead to material changes for how standing charges are recovered, especially for prepayment households.

Summary of our response:

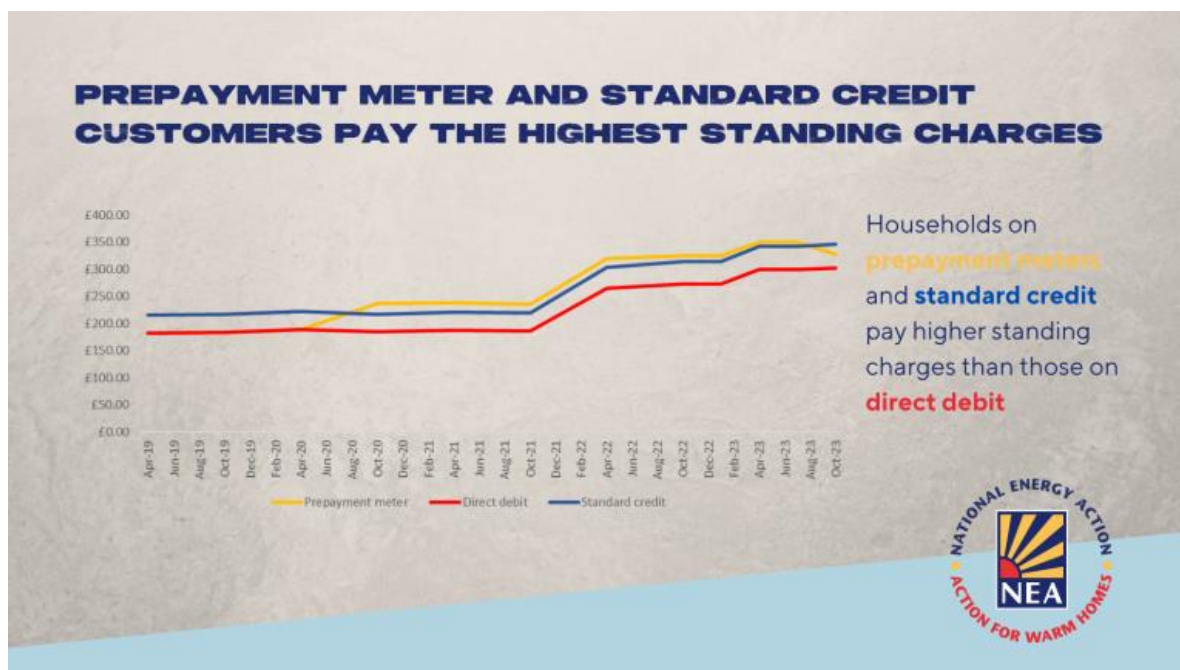
Our response, in summary, focuses on:

- The rise in standing charges
- Drivers of standing charge increases
- A need to act
- Opportunities to improve conditions for fuel poor households

Each of these areas is discussed in more detail below.

The rise in standing charges

Standing charges, particularly for electricity, have increased significantly over a few years. Dual fuel households are currently paying upwards of £300 a year before they've even used a unit of energy.³ Currently, there are significant differences in the rate of charges just because of where you live and how you pay your bills. There is, however, no difference in the rate you pay depending on house size or energy use. This means many low-income households who use no or little energy and live in smaller homes, pay the same as someone in a 10-bed mansion. The current system is clearly unfair and needs reform. While there are a lot of wider considerations for how standing charges could be reformed, our key focus as a charity is to see reforms to standing charges for prepayment customers. As we outline below, this is the area in which reforms are most necessary.



The table above highlights that despite a recent small reduction, low-usage households on standard credit and prepayment meters have been hit harder by higher standing charges. Despite many people on prepayment meters cutting their energy usage to the point it could be dangerous to their physical or mental health, charges for these customers have almost doubled over the same period. Given the extent of public concern with these issues, we stress the need for the review to produce some fairer outcomes.

Drivers of standing charge increases

The purpose of the standing charge is to recover fixed costs for network access, forward-looking costs for network expansion, policy costs and operational costs. Several factors have influenced the increase in standing charges. Primarily, the shifting of network costs from the Unit Rate to the Standing Charges as part of the Targeted Charging Review (TCR – 2019) has driven the increase. Important drivers also include the cost of failed energy suppliers being recovered through standing charges, and the impact of inflation on fixed costs.

Electricity standing charges are likely to rise further. This will depend on decisions that will be made about how the costs through the SAR regime for Bulb, which collapsed in summer 2021, will be recovered, and whether an Energy Intensity Industry Levy (EIIL) is introduced in 2024. Also, network costs will continue to rise, at least at the pace of inflation (even if the overall level of the price cap falls), meaning standing charges are likely to continue becoming a greater proportion of energy bills over time under a business-as-usual scenario.

The need to act

Beyond the overall increases to standing charges, for households with low levels of electricity consumption, a greater proportion of their energy bill is going towards paying fixed costs, despite having a lower demand and therefore using less of the electricity networks' capacity. The current approach to standing charges benefits high-usage households (who are more likely to live on higher incomes) while negatively impacting low-income, low-usage households.

For prepayment households, a higher standing charge means a greater barrier for getting back on supply when they disconnect. Standing charges accrue on prepayment meters as a debt that must be cleared before energy can be accessed again. A high standing charge

also drives worse coping/self-rationing strategies. In addition, some of the most deprived areas of the country have higher standing charges, compared to more affluent areas due to the regional differences in how costs are recovered across Great Britain.

Standing charges are effectively a minimum monthly cost for energy, regardless of how much energy is used. As standing charges have risen, we have noticed a greater propensity to adopt “not coping strategies”.⁴ Through our clients and advisers, we have heard of many cases where high standing charges have generated decisions to avoid using energy. Some extracts from those conversations can be found below.

Extracts from conversations with clients

'[I go] to friends, like, to stay warm with friends for a bit, [rather] than in my home.'

'When the kids are at their dad's I'm expected to maybe sit in the cold because I can't afford to put the heating on when there is just me here.'

'When there's absolutely no gas, I've known myself go without for two weeks ... absolutely freezing cold.'

Comments from our advisers

'I've had some really sticky cases specifically to do with just standing charge debt. This is where social tenants had their gas capped by the landlord because they don't have the money on the meter to do the check. The debt is building up, but it's just from standing charge. I've had lots of those cases this year.'

Opportunities to improve conditions for fuel poor households

Given the level of public concern about the extent and unfairness of standing charges, Ofgem must take action to reduce the impact of standing charges on low-income households. We also believe that government must play an important role over the longer-term. Government involvement is especially important for considering how policy costs are recovered. For instance, policy costs such as the Green Gas Levy could be removed from prepayment standing charges for gas. Below are some of our considerations regarding standing charge reform:

1) Leave it to the market

In the Call for Input documentation, it is implied that energy suppliers already have the means to offer tariffs with standing charges set at any rate. NEA recognises that one supplier is already offering tariffs with no standing charges however it unrealistic to assume other energy suppliers, with very different customer profiles would accept the commercial risk of adopting this model. In addition, given the current pressing concern highlighted above, it is also unreasonable for their customers to have to wait until their energy suppliers voluntarily decide to do so. We therefore do not believe that Ofgem should place the responsibility on energy suppliers to offer lower standing charges.

2) Unit rate reallocation

Some stakeholders have advocated for a full reallocation of costs from standing charges to unit rates. While it may be appropriate to shift some costs to the unit rate, without any deliberate mitigation, this option would negatively impact low-income households that have high levels of energy consumption. This higher consumption is often because of a reliance on energy for health purposes and could result in negative outcomes such as rationing

medical equipment or reducing use of space heating. If this option was to be considered, NEA would stress the need to reconsider recent reforms to the Warm Home Discount scheme, or to provide additional new forms of support, given many disabled, high-usage households, are not eligible or receiving rebates during winter.

There are also regional differences to the impact of a unit rate versus standing charge split. In the north of Scotland, for instance, a higher proportion of households use electric heating. A reallocation of standing charge costs to the unit rate would therefore directly impact the cost of heating for these households. This impact on these households would be disproportionate and would require different forms of support to be made available for them. To address regional differences, Ofgem could consider introducing regional Typical Domestic Consumption Values (TDCVs) to allow for a more accurate split in unit rate/standing charge cost allocation based on local consumption data.

A unit rate reallocation would carry less risk for prepayment households. Through recent policy work and the introduction of new rules around involuntarily installing prepayment meters, households that have certain kinds of medical dependency on energy are exempt from prepayment.⁵ This should therefore minimise the number of households that would be worse off from a reallocation of costs from the standing charge to the unit rate.

3) Cross subsidy across payment types

The Energy Price Guarantee (EPG) is currently providing some relief to reduce the burden of standing charges for some cohorts. The EPG however expires in April 2024, and Ofgem is currently considering making permanent the levelisation of standing charges between prepayment and direct debit customers. By itself, this measure would save prepayment households around £50 per year relative to the 'do nothing' approach and is therefore welcome. However, if standing charges continue to rise significantly, this level of cross subsidy may start having negative impacts on other customers.

4) New approaches

As a minimum, NEA expects Ofgem to take action to continue to reduce the impact of standing charges on prepayment households. It is, however, clear that some of the current reform options have benefits but also drawbacks. NEA would like to see Ofgem prioritise analysis of low-risk options such as mandating that standing charges accrue at the back of the meter. By this, we mean that standing charges accrued during periods of self-disconnection should be repaid through the debt repayment rate mechanism as opposed to being paid off in full before a households can access supply again.

At the end of this document, we have outlined a summary of further options that could create new approaches for how standing charges operate. While we acknowledge that these options too may have pros as well as cons, we hope they will be considered by Ofgem as credible means to address the current unfairness of the existing system.

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

As we understand it, suppliers that offer low/zero standing charge tariffs must accept the risk of absorbing costs for households that are empty (such as second homes) or are using little to no energy because of extreme self-rationing. Suppliers will vary in their appetite for such risk, regardless of the benefits that lower standing charge tariffs could provide for low-income households. NEA therefore believes that it is imperative that Ofgem explores reforms that could provide benefits to low-income households without creating risk to the financial resilience of energy suppliers. Below, we lay out how this can be achieved by focusing on reforms for prepayment tariffs.

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

NEA believes it is imperative that Ofgem does not leave the task of providing lower standing charges to energy suppliers. We are concerned that leaving the task of tackling high standing charges to energy suppliers will not lead to tangible reforms, especially for prepayment customers who are most in need of reform.

Prepayment users are more likely to be fuel poor, more likely to have a very low income, and more likely to be disabled, be a single parent, and have multiple vulnerabilities when compared to the average customer.⁶ With standing charges for the October 2023 price cap level due to be twice as high for the average dual fuel prepayment household compared to 2019, low-income households will have less budget available to go towards energy consumption. The result of this will be an increase in the number of households self-disconnecting and an increase in both the frequency and duration of self-disconnection.

In addition to the physical and mental impacts that self-disconnection can cause households, standing charge debt on prepayment meters are an obstacle for social housing providers to conduct gas safety checks. This means that some prepayment households have their supplies capped and are left without the means to heat their homes to safe temperatures, in some cases for several months. Reducing standing charges for prepayment customers is therefore imperative. Further rationale for reducing standing charges for prepayment users has been set out by Ideal Economics.⁷

*The Energy Price Guarantee (EPG) is currently providing some relief to reduce the burden of standing charges for some cohorts. The EPG however expires in April 2024, and Ofgem is currently consulting on making permanent the levelisation of standing charges between prepayment and direct debit customers. By itself, this measure would save prepayment households around £50 per year relative to the 'do nothing' approach and is therefore welcome.⁸ However, if standing charges continue to rise significantly, this level of cross subsidy may start having negative impacts on other customers. **NEA therefore believes that Ofgem should look at further ways to tangibly reduce the level of prepayment standing charges, without risk of producing negative outcomes for other customers.** Ofgem must, however, also consider the impact that such reforms could have on competition in the market.*

There are a range of measures that could lead to lower standing charges under the price cap, and beyond the price cap too. Some examples of how reform might be achieved have been outlined at the end of this document.

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?

NEA believes that it is not fair that charges are equally allocated to domestic households considering that demand from households varies significantly. The purpose of the TCR was to more fairly apportion costs to non-domestic users who place considerable reliance on drawing power from the grid.⁹ NEA believes it is appropriate to extend that fairness to the domestic sector.

A low-income household with low usage should not pay the same costs for accessing the network as a high-income and high-usage household. One option for reform may be to introduce bandings for the network portion of standing charges in the domestic market. Such bandings would need to be designed with consideration for low-income, high-usage households, especially where there is a medical dependency on energy.

*Fairness can more easily be introduced by focusing on reforms to prepayment, where the impact of standing charges is most noticeable.¹⁰ Tackling high standing charges for prepayment users should be low risk on account of the recently introduced rules regarding involuntary installations of prepayment meters which categorise households that have a medical dependency on energy (many low-income, high-usage households for instance) as unsuitable for prepayment.¹¹ Theoretically, this should mean that prepayment users would benefit from a reallocation of costs from the standing charge to the unit rate. **We would like Ofgem to analyse the case for introducing further standing charge reforms for prepayment households.***

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

Suppliers are responsible for compliance with the energy price cap. The cap sets regional differences in standing charges based on the economic principle of cost-reflectivity. NEA believes that the significant variation in regional pricing is unfair to households that live in higher cost-to-serve areas. Some of the most deprived areas of the country have higher standing charges, compared to more affluent areas due to the cost-reflective approach.

NEA's understanding is that the balance of unit rate versus standing charge apportionment is based upon the national Typical Domestic Consumption Value (TDCV) estimates. Introducing regional TDCVs would allow for a more accurate split in unit rate/standing charge cost allocation based on local consumption data. This would reduce high standing charges in rural areas that tend to have high electricity consumption for heating. This would mean that some regions, where the average usage exceeds the national average, would be protected from inequitable increases in total costs. Ofgem can ensure that the regional unit rate/standing charge split is reflective of the consumption differences between regions. (I.e. lower unit rates in Scotland). However, in considering this proposal, regions with high levels of fuel poverty, such as North Wales, may require additional consideration since the aggregate level of household consumption for the region is highly likely to be impacted by significant levels of self-rationing.

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?

While most customers heat their homes with gas, and gas standing charges are typically lower, higher standing charges overall mean that the savings from adopting energy efficiency measures are lower. Lower potential savings are a reduced incentive for households to adopt energy efficiency measures. High standing charges also hinder the efforts of the UK government in meeting their statutory fuel poverty target as well as carbon budgets through promoting energy efficiency measures. Recovering costs through standing charges as

opposed to unit rates also drives higher total energy consumption, thereby raising carbon emissions and reducing energy security¹². Action to tackle high standing charges could therefore help to increase the incentive of adopting energy efficiency measures, boost the benefits of existing government schemes that target low-income households and ensure energy security.

We are also concerned about how high standing charges disincentivise consumers from using an adequate amount of energy to heat homes to safe temperatures. Households that have a medical dependency on energy are much less able to respond to price changes caused through a reallocation of costs from standing charges to the unit rate or vice versa. However, for low-income, low-usage households, high standing charges can drive more extreme forms of self-rationing. For instance, our clients have told us how they view standing charges as a minimum charge for their energy. With the level of standing charges having increased significantly, standing charges are taking up a greater proportion of our clients' income. This leads to more drastic attempts to cut energy costs, often having a negative result for our clients' physical and/or mental wellbeing. Extracts from conversations with our clients demonstrate this point. They can be found in the summary of our response above.

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?

Standing charges have the greatest negative impact on prepayment customers.¹³ While Standard Credit customers face slightly higher costs, they do not need to pay for these charges in advance and can access energy services before these charges have been paid.

Under the new prepayment rules set out by Ofgem, there is a clear expectation that prepayment meters should not be used in households where there is a medical dependency on energy. The risk of self-disconnection means that prepayment meters are not safe and reasonably practicable for these households. Ofgem should therefore prioritise consideration for whether it would be appropriate to reform standing charges for prepayment customers. The case for change in this area is much stronger than for other payment types considering that the negative outcomes of reallocating standing charge costs to the unit rate, should be minimal.

There are several positive outcomes that could arise from reducing standing charges for prepayment households. The first outcome would be that households who do not use gas during summer months would have to pay less to clear standing charge debt when they need to access gas in winter. Regarding gas safety checks, reforms to standing charges could also reduce the likelihood of a gas supply being capped due to having no credit on the meter. As explained above, this can result in households being left without access to gas for several months in some cases. Finally, it would also reduce the frequency and duration of self-disconnection by reducing the barrier for a household to get back onto supply after it disconnects.

We recognise that there may be resource constraints impacting the number of potential reforms that can be considered with detailed analysis. NEA would like to see Ofgem prioritise no-regrets options such as mandating that standing charges accrue at the back of the meter. By this, we mean that standing charges accrued during periods of self-disconnection should be repaid through the debt repayment rate mechanism as opposed to being paid off in full before a household can access supply again.

Further forms of intervention with minimal risk of producing negative outcomes include mandating suppliers to offer standing charge freezes for financially vulnerable prepayment households or reforming the price cap to allow for no standing charges during certain cap

periods. Many suppliers offer standing charge freezes already however we believe it should be a standardised support mechanism offered by all suppliers for households with prepayment meters.

To reiterate, NEA believes there are several potential forms of intervention that would minimise the risk of producing negative outcomes. We are keen to see Ofgem explore some of these options further in order to produce material changes for consumers who are disproportionately impacted by high standing charges.

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?

One example of good practice in this area comes from the water sector. In the water sector, NEA understands that some suppliers assess eligibility to social tariffs and additional support using self-identification mechanisms underpinned by credit reference agency data. With customer consent, this allows water companies to better understand affordability challenges and to utilise their limited resources in a more targeted way.

While a social tariff does not exist in the energy sector, the good practice set by water companies is helpful for understanding the mechanisms available for energy suppliers to offer appropriate tariffs and financial support to vulnerable consumers in an efficient way.

Appendix: NEA options for reforming standing charges: *the list of potential solutions below vary in their importance to us as a charity. We would like to see the options that bring targeted support to low income, vulnerable customers, especially those who pay by prepayment, prioritised.*

| Potential solution | Explanation |
|--|--|
| 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. |
| Introducing standing charge freezes | Suppliers could be given an obligation to offer standing charge freezes in well-defined situations. This could, for example, be used to reduce the build-up of debt during self-disconnections. |
| Introducing exemption for gas standing charges during summer months | This would prevent consumers from having to pay a lump sum to get back on supply after the summer months, where they have not been using gas during those months. |
| Moving standing charge accrual 'to the back' of prepayment meters to minimise impact on self-disconnection. | A no-regrets move that would mean all smart prepayment meter customers face reduced barriers to getting back onto supply. Standing charges would essentially accrue as debt for as long as the meter is disconnected but would be paid for through the customisable weekly repayment mechanism rather than a lump sum payment in order to reconnect. |
| Partial reallocation of costs from standing charge to unit rate. For instance, policy costs. A full abolition of standing charges for all households would create risk in the market – so the level of costs being reallocated must be carefully considered. | Would generate a net benefit for low usage vulnerable households but high usage vulnerable households would see an increase in their bills. Would also partially reduce self-rationing activity & self-disconnection for prepayment households. |
| Reducing regional differences in standing charges through a unit rate increase in areas with a lower standing charge (e.g. London). | Reducing the high-level of standing charges paid in regions such as north Wales and Merseyside, and Scotland. Compared to regions such as London, these areas pay more than £80 more per year in standing charges. |
| Introducing Regional Typical Domestic Consumption Values (TDCVs) | Introducing regional TDCVs would allow for a more accurate split in unit rate/standing charge cost allocation based on local consumption data. This would reduce high standing charges in rural areas that tend to have high electricity consumption for heating. This would mean that some regions, where the average usage exceeds the national average, would be protected from inequitable increases in total costs. Ofgem can ensure that the regional unit rate/standing |

| | |
|---|---|
| | charge split is reflective of the consumption differences between regions. (I.e. lower unit rates in Scotland). |
| Implementing standing charge tariff bandings for domestic users based on a consumption threshold – e.g. EAC of 5000 kWh on electricity means higher standing charges. | Creating standing charge bandings, similar to what has been done in the nondomestic sector for transmission charges, would mean that households who place the biggest strain on networks would pay a fairer share of the costs for maintain and expanding networks. These bandings could be set in a way which would avoid high usage vulnerable customers being penalised. |
| Rising block tariff which has progressively higher unit rates for each kWh used in a period – allowing for extremely high users to pay for more network costs. | Another mechanism for achieving a fairer distribution of fixed costs. A rising block tariff would eliminate the need for standing charges to be paid by low usage households, while ensuring that network costs are recovered from higher users. |
| Targeted standing charge cap | To be used in conjunction with other reforms. A cap, which could be targeted to high usage vulnerable households, could ensure protection from a reallocation of costs from the standing charge to the unit rate. |

References and Notes

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ [Energy price cap level from January to March 2024](#), Ofgem, 2024

⁴ See <https://www.nea.org.uk/not-coping-strategies/> for more information about “not coping” strategies

⁵ [New prepayment meter rules](#), Ofgem, 2023

⁶ [CMA Energy Market Investigation Appendix 9.9](#) – Prepayment, CMA, 2016

⁷ [Reforming standing charges for prepayment customers](#), Ideal Economics, 2023

⁸ [Prepayment meter standing charges and other debt costs](#), Ofgem, 2023

⁹ [Targeted Charging Review: Decision and Impact Assessment](#), Ofgem, 2019

¹⁰ [Reforming standing charges for prepayment customers](#), Ideal Economics, 2023

¹¹ [Prepayment meter standing charges and other debt costs](#), Ofgem, 2023

¹² [The high level of the standing charge in energy bills](#), Ideal Economics, 2022

¹³ [Reforming standing charges for prepayment customers](#), Ideal Economics, 2023