

MoneySavingExpert

Response to Ofgem options paper Standing charges: domestic retail options

Summary

MoneySavingExpert (MSE) welcomes the opportunity to respond to this options paper, which considers moving some of the burden of standing charges onto the unit rate in price-capped default tariffs.

MSE and Martin Lewis have previously raised that the high levels of standing charges are a moral hazard and we are in favour of reducing them. Most people are currently – and crucially, unavoidably – spending some £338 a year on typical bills just for the facility of having gas and electricity, before having actually used any. Our previous responses to relevant Ofgem consultations demonstrate the harm that we have seen among consumers who are battling a floor of standing charges and who struggle to reduce their bills, even when they are rationing energy usage. Our responses also highlight widespread support for this move, even in the knowledge that it would likely increase unit rates.

We are encouraged to see that Ofgem is highlighting the need for a holistic approach to energy bills and affordability generally – and specifically to target support towards certain categories of highly vulnerable people who may lose out if standing charges are reduced. We agree that this is likely to also require Government intervention – and we have also raised these issues with the Department for Energy Security and Net Zero.

While some wider market and infrastructure interventions may eventually result in lower bills, this won't happen quickly. With the withdrawal of most Government energy bills and cost of living support, the tightening of the criteria for the Winter Fuel Payment, and the rise in the default tariff price cap this winter (which still serves the majority of customers) – many consumers are facing a tough winter ahead.

As such, the proposed implementation of these changes (April 2025) will already be too late, and we are concerned about further increases in the levels of energy debt and the number of households in fuel poverty having to choose between heating and eating. This is not helped by high standing charges – especially for prepay customers who are having to cover them before they are able to use any energy at all. We urge Ofgem to keep a close eye on this over the coming months, and to consider whether there are any urgent interventions that can be made within the regulator's purview.

Q1: Do you have any views on our case for change?

We are pleased to see that Ofgem agrees with our assessment of the need to lower standing charges, particularly on price-capped default tariffs which serve most consumers. We also note and broadly accept that the proposals are achievable within Ofgem's current regulatory framework, and that further, holistic intervention is needed – which would likely include measures from Government – to tackle wider affordability and debt problems.

We also recognise that Ofgem's wider work to review supplier recovery of operating costs must also ensure that firms deliver both efficient services, and fair, consumer-focussed outcomes.

As per our previous submissions, we acknowledge and share concerns that some vulnerable high-energy users – especially those who also have low household incomes – will be worse off if standing charges are lowered (though many told us they still wanted this).¹ As such, a move to lower standing charges needs to come with additional price protections for these customers: we have previously proposed an energy social tariff; two variants in the price cap (one with higher standing charges and lower unit rates, and vice versa); or another safety net to prevent the most vulnerable, who cannot safely reduce their usage, from falling into further hardship. We are pleased to see that Ofgem is considering these options alongside Government – and has itself made a strong case for there to be something akin to a social tariff.

If standing charges are lowered for the benefit of as many low-income and indebted households as possible, we would expect to see the growth in debt levels slow, which could have the knock-on impact of eventually reducing the bad debt and Additional Support Credit (ASC) allowances that are currently being socialised across all customers – or negate the need to continue the ASC allowance altogether. In other words, reducing debt levels across the market could have a direct, positive impact on affordability for customers in credit too.

Q2: What are your views on the range (£20-£100) of operating costs we are considering shifting from standing charges to unit rates? Should it be higher?

We understand Ofgem's rationale for its recommendation to move an average £20 - £100 of fixed operating costs allowances from standing charges to unit rates through the price cap. Nevertheless, we would like to see the regulator consider whether there is room to go further while still maintaining a net-positive outcome for the majority of consumers (and particularly those desperately cutting back usage for whom standing charges represent an unusually large proportion of their overall bills).

Overall – we agree that this reform is more progressive than the current status quo and the regulator should not scale back this proposal any further.

Q5: Could mandating suppliers to have at least one low or no standing charge tariff available to customers help promote competition in this area of the market?

Q6: How could we create flexibility in how costs are recovered between the unit rate and standing charge without reducing the protection provided by the cap?

Q7: In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?

On default tariffs: Ofgem has rightly identified the challenges in creating diversity in practice, as there is a ceiling for increasing unit rates. One option we have previously proposed would be to create two variants of the price cap – one using the current structure, or the standing charges re-allocation proposed in this paper, and one that is more ambitious at bringing down levels of standing

¹ In a self-selecting MSE survey, 87% of those identifying themselves as vulnerable high energy users also said they would prefer the standing charge to be lowered or abolished, even when told this would increase unit rates. See [MoneySavingExpert response to Ofgem's Call for Input on Standing Charges](#), January 2024

charges (and hence raising unit rates). This could work if suppliers are expected to identify customers who are vulnerable *and* have high energy usage needs, and to help them onto the higher standing charge option if it would bring down their overall bill. This could help reduce the likelihood that suppliers optimise their default tariff against their full customer base – as identified by the regulator in this paper.

We were pleased to respond to Ofgem's paper on the future of domestic price protection earlier this year – and welcome the regulator's consideration of whether the default tariff is still working well for consumers. We refer the regulator to our response to this paper.²

On the competitive switching market: Whether mandating suppliers to have a low/no standing charges tariff would benefit consumers and competition would depend on whether the unit rate pricing is indeed competitive – without oversight, these tariffs could end up far more costly overall.

Switching to these tariffs may be a good option for some, but if the unit rate pricing negates and goes beyond the savings in standing charges, it wouldn't be worth switching to. It's possible that these tariffs could be marketed to some customers with more focus given to the pricing of the standing charges than the unit rates – and some may switch (and be locked in) despite it being no more affordable. On the other hand, you could expect that switching would drive energy-saving behaviours in customers who can safely reduce their energy use further – if they aren't already doing all they can.

We agree that the presentation of tariffs to customers in the (limited) competitive switching market does not draw attention to unit rates and standing charges. This will only become more challenging as the market moves towards more innovative and dynamic tariffs.

Because of this, and other issues with price comparison, the current situation is such that consumers have to rely on services like ours to decipher their options, and are unlikely to be able to make an informed choice alone. This is not in the spirit of an open, competitive market – or one in which people can choose to lower their standing charges if it would benefit their overall bills. Instead, it supports a landscape in which the majority are 'sticky' on the default tariff, over-relying on the regulator's price cap to shield them from disproportionate costs.

About MoneySavingExpert.com (MSE)

MoneySavingExpert (MSE) MoneySavingExpert.com, founded and Chaired by Martin Lewis, is dedicated to cutting consumers' bills and fighting their corner. It is the UK's biggest and most trusted consumer website. For 20 years, campaigning journalism has been at the heart of MSE's mission. The site is behind many notable campaigns, including student finance reform, reducing energy bills, mortgage help, scam ads regulation and helping consumers reclaim an estimated £1bn in bank charges and £12bn in PPI payouts.

With millions subscribing to receive the weekly MSE's Money Tips email and visiting the site monthly, MSE ranks as YouGov's most recommended brand (all sectors) in the UK. It is also, according to Press Gazette, the UK's largest specialist online news publication, with more traffic than many national newspaper sites. In September 2012, the site joined the MoneySupermarket.com Group PLC

² See [MoneySavingExpert response to Ofgem's discussion paper on the future of domestic price protection](#), May 2024