

CSE response: Standing charges: domestic retail options



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 45 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 22,000 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 this has overwhelming support with 90% of the 30,000 individuals that responded stating that standing charges are unfair and almost two-thirds calling for their abolition.

It's our view that Ofgem should reduce standing charges by £100 as a minimum. Longer-term we would like to see reductions of £150-£200 which brings standing charges down to around £100 (pre-2019 levels). However, as discussed in Q1 there are some unintended consequences for people who have high electricity consumption, and these households need additional protections. We would like to see consideration of the following:

- Extending the amount of the WHD (Warm Homes Discount) payment by £150 to £300 for those on multi-rate tariffs (e.g. economy 7 or 10) or with a medical need for electricity.
- Extending the existing WHD payment of £150 to people claiming disability benefits.

or

- Implementing a social tariff that protects people on low incomes who are on a multi-rate tariff, have a medical need for electricity or have a disability.

We would also ask that Ofgem's conducts:

- A review of supplier pricing for multi rate tariffs with a separate price cap methodology for economy 7 and 10 customers.
- A programme of work to review each aspect of standing charges, including network and grid costs, supplier profit, supplier operating costs and policy costs.

Question 1: Do you have any views on our case for change?

Short term

It's our view that Ofgem should reduce standing charges annually by £100 as a minimum. The lower amount of £20 is insignificant when households are paying yearly standing charges of between £219 (electricity only) and £334 (gas and electricity households). Longer-term we would like to see reductions of £150-£200 which brings standing charges down to around £100 (pre-2019 levels).

Longer term

We would like to reiterate our response to last year's call for evidence on standing charges where we advocated for a comprehensive programme of work within Ofgem to review standing charges, including network and grid costs, supplier profit, supplier operating costs and policy 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 ultimate goal should be to reduce standing charges and collect the remaining costs in the most progressive way possible, whilst acknowledging that further policy protections may be needed for some vulnerable households with high consumption.

Question 2: 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? Within this range, is there a value you would favour and why?

As stated above we'd like to see a £100 reduction in standing charges, but we don't feel that's sufficient. Longer-term we would like to see reductions of £150-£200 which brings standing charges down to around £100 (pre-2019 levels). This would make energy more affordable for many of the vulnerable low-income households that we support on a day-to-day basis.

Question 3: What are your views on the trade-offs and impacts we have identified for consumers and suppliers? Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?

Ofgem describes its role in the following terms¹ "We work to protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment." With regard to the trade-offs between the impacts you've identified we feel that the benefits to consumers outweigh those to suppliers.

Consumer impacts

Table A7 shows that a shift of £100 makes a significant difference to users who use lower amounts of electricity. The consultation states that "after applying income weights, our analysis shows that low-income households (particularly archetypes A1 – A3) realise the largest gains." This is encouraging but there are some worrying unintended consequences for Economy 7 & 10 customers (referred to as multi rate):

- Two/three bedroom house with electric storage heaters (E7 or equivalent) occupied by a retired couple (12,500kWh elec only) - **£116+**

¹ <https://www.ofgem.gov.uk/our-role-and-responsibilities>

- Two bedroom flat with direct electric heating occupied by a family with a young child needing constant heating (10,000kWh elec only) - **£86+**

The income profiles aren't provided in Table A7, but if they are low income, then these changes will have a significant impact on their wellbeing. To protect these customers until there's a more detailed comprehensive review of standings charges (see Q1), we suggest:

- Extending the amount of the WHD payment by £150 to £300 for those on economy 7 or 10² or with a medical need for electricity.
- Extending the existing WHD payment of £200 to people claiming disability benefits.

or

- Implementing a social tariff that protects people on low incomes who use electricity to heat their home, have a medical need for electricity or have a disability.

If Ofgem implement a social tariff, then the winners and losers will need to be carefully considered. We would caution against sole reliance on means tested benefits for the eligibility criteria as this excludes those on low incomes who narrowly miss out and the many households who do not claim the benefits they are entitled to. We would like to see a consultation on social tariffs as previously discussed with government in 2023.

As we've highlighted in previous consultation responses, households that use heating at off-peak times aren't being adequately served by the market. There's a lack of multi rate tariffs to choose from and they're uncompetitive compared to other dynamic tariffs i.e. TOU or specific EV tariffs. Indeed, we have clients who heat their homes with night storage heaters who could save considerable amounts if they could access an EV tariff.

Multi rate customers are not offered the same level of consumer protections as those on SVTs (85% of the market). The current price cap methodology relies on averaging of the day night rates to allow comparability with the SVT. Given multi rate tariffs were designed in the 1970s to encourage people to shift their demand to off peak times it doesn't seem appropriate to align the two. A new price cap methodology needs to be determined for multi rate customers to ensure that off-peak pricing reflects the benefits they offer to the system and the cost to supply.

Supplier impacts

We do not support a universal reconciliation mechanism. If a supplier's profits fall because their customer mix isn't profitable after this change, then that is a commercial issue that they should seek to address by acquiring a different mix of customers. Where suppliers offer tariffs with very low standing charges (as described in Q5) we would support some form of reconciliation mechanism.

Question 4: What are the changes required, if any, to the price cap to facilitate a reduction in the level of the operating costs charged through the standing charge?

Ofgem needs to incentivise suppliers to reduce their operational costs. These costs are reported to Ofgem and are used in calculating the price cap figures. They are also used in calculating the EBIT allowance and Headroom allowance, which are calculated a percentage of other costs (including these operating costs) added together. You incentivise suppliers to keep their operating costs high because they can get higher EBIT and headroom allowances by having higher costs (the costs are

² We would support doing this for all homes that qualify for WHD and are heated by electricity but there's no way for a supplier to be able to know or verify this.

passed on to consumers in the price cap anyway). If you want to reduce operating costs in the energy supply market then you need to have a cap that ensures suppliers make a loss when their costs are too high, as every other company in every other industry experiences. The current system is a cash cow for large energy suppliers that can absorb short term costs.

Question 5: 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?

We would support this proposal. We would also support Ofgem going further to mandate suppliers to offer at least 1 fixed rate tariff at all times, allowing customers that want certainty over their energy bills the opportunity to secure a deal.

Question 6: 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?

See Q4 above. Ofgem should prioritise encouraging and incentivising suppliers to reduce operating costs as rather than focusing on their model for cost recovery.

N/A

Question 7: In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?

Earlier in the year Ofgem consulted on default tariffs and raised the possibility of default time of use tariffs. The consultation contained three guiding principles for default tariffs which we broadly supported. We suggested a fourth principle for default tariffs:

- Principle 4 – Default tariffs should be designed to avoid unintended outcomes for vulnerable groups which exacerbate the social and health impacts of fuel poverty.

We would like Ofgem to implement a similar principle for standing charges. Any move to increase the diversity of standing charges should consider the unintended consequences for vulnerable households.

Standing charges can only be reduced if the costs of a policy, provision or service are reduced or moved. The most progressive way of reducing them would be to move them to taxation. If this isn't possible then they need to be moved to the unit rate. Unfortunately, there are a number of households who consume above average amounts of energy. For example, some disabled consumers with high energy use due to medical equipment may be unable to reduce their demand and should not be penalised.

We set out our proposals for safeguarding vulnerable customers in Q3.

Question 8: What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?

N/A

Question 9: Do you have any views on our considerations for the allocation of network and policy costs?

A fairer energy system requires a fair distribution of the network and policy costs. To ensure public engagement, acceptance and support for the changes needed to reach net zero we need to ensure

our energy costs are transparent and fair. The comprehensive review of standing charges we've advocated for in Q1 should put transparency and fairness at its heart.

As discussed in the consultation the Targeted Charging Review in 2019 led to a fundamental increase in standing charges. Moving the costs identified in the TCR to the electricity unit rate would be broadly progressive; those using the most would contribute the most. However, as discussed above we need to avoid unintended consequences and there are two groups 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 homes, 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.

Without this there is a significant risk that a two-tier energy system will emerge: one that works well for those with the time, space and financial resources to optimise their energy use, while penalising those with minimal usage and low flexibility. Fairness will not reliably emerge from the market without deliberate and purposeful action by policymakers and regulators to secure it.

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.