

## **National Energy Action (NEA) response to the Discussion Paper on Standing charges: domestic retail options**



### **About National Energy Action (NEA)**

National Energy Action <sup>1</sup> works across England, Wales, and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, safe and healthy home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, work on local projects, and coordinate 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, irrespective of whether they use any energy in their homes.

In addition to the soaring cost, the way standing charges are recovered can badly affect seasonal gas use for home heating for prepayment households. This impacts PPM users' ability to maintain energy supply, leading to more instances of self-disconnection and for longer periods, which impacts on consumer physical and mental wellbeing.

There are also sharp 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 how much energy you use.

The current system is clearly unfair and needs reform. This point was made by over 20,000 respondents to the Call for Input on Standing Charges, which closed earlier this year. As a result, reforming standing charges was a prominent feature within the manifesto commitment of the current government during the general election campaign. Reform was also supported by other political parties too. NEA is therefore pleased to see that Ofgem has released this paper and wants it to lead to meaningful changes in how standing charges are recovered, especially for prepayment households. NEA however stresses the need to take forward the options that are considered for reforming PPM cost recovery and Ofgem and government need to urgently develop options for mitigating the impact of standing charge reform for vulnerable, high-usage households.

### **Summary of our response:**

#### **Reducing the barriers to supply for prepayment households**

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. Through the experiences of our clients, NEA has seen that many people on prepayment meters cut their energy usage to the point it could be dangerous to their physical or mental health. This is because prepayment households pay for their energy on demand. Winter costs of energy for these households are therefore more impactful. Recent policy developments have helped to reduce prepayment standing charges, so they are in line with standing charges paid by direct debit consumers, but more meaningful reform is required.

For prepayment households, standing charge reform is likely to have a very different impact when compared to equivalent reform for credit customers. This is because many of the low-income, high usage households which may face higher costs from reform should not be using prepayment as a payment method. For instance, low-income households with a medical dependency (who by the nature of that dependency have a higher average

consumption) should not have a prepayment meter because of the heightened risk of harm that can be caused by disconnection. Additional rationale for significant reform to standing charges for prepayment households has been laid out by Ideal Economics.

NEA has experienced cases where clients have been unable to reconnect their energy supply due to the accrual of standing charge debt during the disconnection period. In the case of our client, Jacob, found below, standing charge debt coupled with poor customer service resulted in a client living without access to hot water or heating for over two years. The experience of clients that NEA works with demonstrates that for prepayment households, a high standing charge means a greater barrier for getting back on supply when they disconnect. As we see it, there are 3 potential policy solutions:

### **Solution 1**

- Redistribute a significant amount of costs from the standing charge to the unit rate.
- Prepayment users are likely to benefit from lower standing charges, on account of having lower than average consumption.

### **Solution 2**

- Change how standing charges accrue on smart prepayment meters, moving them from the 'accrued debt' register to the 'supplier debt' register.

### **Solution 3**

- Cap the repayment of standing charges, so that only a portion of standing charge debt, up to the capped level, can be recovered.
- The remainder of standing charge debt would be recovered in subsequent weeks.

A more detailed explanation of both solutions can be found in response to Question 8 below.

## **Jacob's Story**

Jacob suffers from cancer and has a visual impairment. He moved into a new socially rented property a couple of years ago and inherited the previous tenant's debt on the gas prepayment meter. Jacob found it incredibly difficult to pay this debt, and so the gas supply was capped. Jacob has been solely using electricity (with no access to heating or hot water) since 2021.

## **Prepayment Debt**

Due to existing debt on his gas meter from a previous tenant (£100) and the subsequent capping of his gas meter, Jacob has had no normal access to hot water or heating for the past three years. When his gas supply was capped, Jacob had £430 worth of debt on the meter, including emergency credit. Jacob was also required to continue paying the standing charge on his capped gas meter over the three-year period, leading to a further build-up of debt. As Jacob used only electricity for three years, he was simultaneously faced with high electricity bills due to an over-reliance on electric heaters and having to boil any hot water that he required.

Jacob decided to contact National Energy Action for support. Luke, an energy adviser, began to negotiate on Jacob's behalf with his energy supplier. Jacob's energy supplier agreed the best method would be to move the debt to the back of the meter which would be repayable from weekly credit deductions. An engineer was able to attend Jacob's home to uncap the meter and his supply was reinstated. Luke also enabled Jacob to access his supplier's internal relief funding to clear his

outstanding debt. NEA also provided him with £98 in energy vouchers, issued him with a Winter Warmth Pack and added Jacob to his energy supplier's Priority Services Register.

## Adviser reflections

Jacob had been referred to National Energy Action by his housing association due to his issues with affording energy. What we believe to have occurred is that, when Jacob moved in, the previous client had not topped up in a long time and standing charge debt had accrued on the smart meter. When Jacob then topped up, it took the whole amount for debt repayment. When Jacob spoke to the supplier there was confusion, and they recommended that he have the gas capped. Jacob explained how, despite suffering from cancer, he had to bathe using a kettle for hot water. He also had to boil water in his kettle to wash up. All of this was causing the spiral of electric costs.

In terms of the outcome, Jacob was so overjoyed at being able to enjoy the simple things of hot showers and baths, and to not have to rely on electric heaters for warmth during the winter. I made sure Jacob was comfortable and happy to make use of the supplier's advice and support going forward but left it open for him to return to me for further support should he need it. Jacob was a joy to speak to and remained positive despite all the issues that he faced. When we finally achieved a resolution, the joy in his voice and the thanks he expressed were amazing to hear.

### **Striking the right balance between winners and losers**

As noted above, standing charges, at their current level, create issues of fairness, and issues of affordability. Examples include:

- That vulnerable households who use no or little energy and live in smaller homes pay the same as those who are able to pay, living in larger homes, is unfair.
- Prepayment households pay for standing charges even during periods of disconnection. Standing charges that accrue during periods of disconnection must be repaid fully in order for the household to reconnect their supply. This creates a barrier for those households to reconnect their energy supply.
- Some Economy 10 households pay two sets of standing charges for the same electricity supply (paying potentially up to £460 in electricity standing charges). If a household has two Meterpoint Administration Numbers (MPANs), suppliers tend to charge standing charges for each. Some electricity-only households will therefore be charged twice as much in standing charges than other electricity-only households.
- Different regions across Great Britain face different levels of standing charge, despite receiving the same service.

In terms of affordability, the primary issue with standing charges is that a growing proportion of monthly energy costs for the typical consumer are being taken up by fixed costs. Despite some households having a lower demand and therefore using less of the electricity network's capacity, growing standing charges constrain a household's ability to keep energy costs down. Because of this constraint on a household's ability to save energy, some households will ration their consumption to more extreme lengths. The current approach to standing charges benefits high-usage households (who are more likely to live with higher incomes) while negatively impacting low-income, low-usage households.

This is why NEA supports Ofgem in redistributing standing charge costs to the unit rate. NEA believes that Ofgem can and should go further in redistributing costs for prepayment

households. There should be fewer vulnerable households with high usage paying by prepayment, because of the rules established through the Involuntary Prepayment workstream. Prepayment households also tend to use less than households in similar circumstances, but with a credit meter. The benefits from a redistribution of costs from the standing charge to the unit rate are therefore likely to have greater upside. Ofgem should consider more meaningful reform for prepayment households, up to and including the possibility of having no standing charge for some prepayment households. Additionally, this would mitigate the need for solutions such as smoothing the costs of standing charge debt – although that policy solution should be pursued in the absence of meaningful reform to prepayment standing charges

### **Creating enduring reforms**

NEA supports Ofgem in exploring long-term solutions for standing charge reform through future consultations. A short-term redistribution of costs from the standing charge to the unit rate may provide some temporary relief, but more meaningful reform is needed to prevent the growth of standing charges from continuing. Network costs will continue to rise (even if the overall level of the price cap falls), meaning standing charges will continue becoming a greater proportion of energy bills over time without meaningful reform.

Standing charges are also experienced differently according to which area of the country a household is in. This is due to the regional differences in how costs are recovered across Great Britain. NEA is pleased to see that Ofgem is considering regional unfairness as part of the thinking around long-term reform of standing charges. Ofgem should commit to, as part of the long-term review, investigate the case for changes in areas with the highest standing charges. For instance, Ofgem could consider reducing the differential across payment types in areas with the highest standing charges, or to focus on a redistribution of costs from the standing charge to the unit rate in areas with the highest standing charges.

Part of the reason that enduring reform is needed is to allow for an energy system which better incentivises efficiency. 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 security. 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.

## **Q1. Do you have any views on our case for change?**

In the case for change, there are two standout reasons for reforming standing charges. One is the (almost) trebling of electricity standing charges between 2019 and 2024. The other is the fact that standing charges will continue an upwards trajectory without intervention. NEA firmly believes that standing charge reform is justified for the reasons outlined in the case for change.

These are direct outcomes from the 2019 TCR decision to reform how network costs are recovered. The aim of that review was to ensure that all consumers make a fair contribution to the costs of networks. Yet, in the context of enduringly high energy costs for domestic consumers, the TCR decision has exacerbated unfairness. As noted above, there are several more reasons for why standing charge reform is needed:

- Prepayment households pay for standing charges even during periods of disconnection. Standing charges that accrue during periods of disconnection must be repaid fully in order for the household to reconnect their supply. This creates a barrier for those households to reconnect their energy supply. As standing charges have risen, so too has that barrier to reconnecting a prepayment supply. NEA's views on this are explained further in response to Q8.
- Different regions across Great Britain face different levels of standing charge, despite accessing the same service.
- That vulnerable households who use no or little energy and live in smaller homes pay the same as someone in a 10-bedroom mansion is unfair. Rises to standing charges are increasingly unmanageable for those in, or at risk of fuel poverty, whereas they may result in lower overall costs for the most able to pay.
- Some households with an Economy 10 meter pay two sets of standing charges for the same electricity supply (paying potentially up to £460 in electricity standing charges). If a household has two Meterpoint Administration Numbers (MPANs), suppliers tend to charge standing charges for each. Some electricity-only households will therefore be charged twice as much in standing charges than other electricity-only households. Increases to standing charges are up to twice as impactful for these households than some other households.

Standing charge reform is also consistent with the long-term evolution of the UK energy market. Standing charge reform is needed to allow for an energy system which better incentivises efficiency. 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 security. 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.

**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? Within this range, is there a value you would favour and why?**

The distributional analysis attached to the range of solutions being presented in this paper shows a similar number of households that stand to win or lose from a redistribution of costs in standing charges. NEA recognises that this creates difficulty in determining the appropriate balance for recovering costs from these households. Savings for some customers would result in costs for other customers - assuming that a redistribution of costs would create a net change of £0 across all consumers.

The analysis also demonstrates that standing charge reform benefits households on a lower income. This is likely the result of a correlation between income and energy consumption. For the £60 scenario, it is stated that there would be around £140mn of net benefit for low-income households. Though the analysis does not make assumptions for what impact a redistribution of costs could have on consumption levels, it is clear that a redistribution of costs could have an immediate effect on vulnerable households' confidence to consume energy. As a result, for low-income households, especially those with prepayment meters, lower standing charges would mitigate the risk of extreme self-rationing. **NEA therefore supports Ofgem in going as far as possible, within this range, with regard to the redistribution of costs from the standing charge to the unit rate.**

An important consideration for shifting costs is the timescale over which wider standing charge reform is likely to be considered and (potentially) implemented. NEA would like to see Ofgem move quickly with regard to considering the allocation of network costs, in particular. Without reform to network costs, standing charges will continue to rise indefinitely, which could create further affordability challenges for low-income households, while also creating distrust among consumers who feel standing charges are unfair.

**Q3. 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?**

The distributional analysis clearly demonstrates that standing charge redistribution would create a net benefit for low-income households. NEA is supportive of a redistribution but would like Ofgem to focus on two additional areas for reform.

The first is with regard to prepayment households. NEA has asked Ofgem to consider the distributional analysis for reform focused entirely on prepayment households. As outlined in response to Q8, there are several reasons for why prepayment households stand to gain the most benefit from reform. One is that a higher proportion of prepayment households are fuel poor, they tend to use less energy and as a consequence the standing charge limits their ability to consume safe amounts of energy. Another is that the standing charge creates a barrier to reconnecting their energy supply after a period of disconnection. As a result, the impact of standing charges should take more significance in Ofgem's assessment of whether or not to act on standing charges.

The second area for reform is with regard to network costs. Network costs are the primary driver of standing charge increases. Networks must continually expand for the foreseeable future in order to support decarbonisation of electricity supply. The consequence of this for consumers is rising standing charges. Any short-term mitigation (in the form of redistributing costs from the standing charge to the unit rate) will provide relief but will not solve the

underlying issue of continual standing charge growth. Alongside reform to standing charges for prepayment households, NEA would like Ofgem to prioritise consideration of how to recover network costs on consumer bills.

**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?**

Mandating suppliers to offer tariffs is unlikely to lead to the desired outcomes with regard to the introduction of tariffs with low or no standing charges. NEA is keen to see lower and no standing charge tariffs offered to consumers, especially prepayment consumers who are more likely to benefit from lower standing charges. But to achieve that outcome, reform to standing charges will require a shift of costs within the price cap, since it regulates suppliers' SVT offerings.

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

NEA has argued consistently that the price cap plays an important role in the protection of vulnerable consumers, especially from an affordability perspective. The purpose of the price cap was to safeguard consumers from unfair pricing practices. It is unlikely that suppliers will diversify SVT tariffs without changes to the price cap structure which may lead to lower protection for vulnerable consumers. This is why Ofgem should focus on delivering standing charge reform without reducing the protection that the price cap offers.

Reforming standing charges within the price cap is both necessary and consistent with how the GB energy market needs to evolve to support decarbonisation efforts. Standing charge reform would better incentivise efficiency. 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 security. 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.

One important additional consideration is that the introduction of an enduring support mechanism that is designed to provide necessary safeguards for vulnerable consumers would reduce the need of the price cap to fulfil that role. With such a mechanism in place, Ofgem could, for instance, consider removing the Nil kWh component of the price cap, allowing suppliers to offer SVT structures entirely according to their preference for cost recovery. It's difficult to understand at this point how suppliers would price tariffs in the absence of a Nil kWh cap, however the risk of allowing diversity in how suppliers offer default tariffs could be lower.

**Q8. What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?**

NEA is interested in exploring options for smoothing spend for prepayment meter customers. NEA believes Ofgem should focus on standing charge debt accrued during periods of

disconnection. Higher standing charges correlate with a higher difficulty for a household to reconnect their prepayment supply. As standing charges continue to increase, the length and frequency of self-disconnection are likely to increase too. Suppliers have a responsibility for ensuring access to supply. All suppliers are expected to offer additional support credit, but their ability to do so depends on consumer engagement. As a result, this is an imperfect arrangement which will not lead to the intended outcomes for disengaged consumers – which prepayment users are more likely to be.

NEA has experienced several cases where clients have been unable to reconnect their energy supply due to the accrual of standing charge debt during the disconnection period. The experience of clients that NEA work with demonstrates that for prepayment households, a high standing charge means a greater barrier for getting back on supply when they disconnect. One solution to this barrier is a significant redistribution of costs from the standing charge to the unit rate. Lower standing charges will undoubtedly favour prepayment households and encourage them to use sufficient energy for maintaining a warm and safe home.

For prepayment households, standing charge reform is likely to have a very different impact when compared to equivalent reform for credit customers. This is because many of the low-income, high usage households which may face higher costs from reform should not be using prepayment as a payment method. For instance, low-income households with a medical dependency (who by the nature of that dependency have a higher average consumption) should not have a prepayment meter because of the heightened risk of harm that can be caused by disconnection.

As highlighted in research by Ideal Economics, there is also a relationship between income and energy consumption. Prepayment households are more likely to be low-income households, and therefore lower-consumption households.

There are solutions to this issue which do not involve a redistribution of costs. NEA has identified two potential pathways for smoothing standing charge costs for prepayment meter households. NEA believes that both outcomes could be achieved via amending licence condition 27A.4 to include standing charges.



**Relevant existing license condition for the partial repayment of charges on a prepayment meter**

27A.4 Where paragraph 27A.2 applies, if the licensee becomes aware or has reason to believe that a Domestic Customer is having or will have difficulty paying all or part of the Charges, the licensee must adhere to SLC 27.8 when calculating instalments for the Domestic Customer to repay the total amount of Emergency and/or Friendly-hours Credit provided.

27.8 The licensee must take all reasonable steps to ascertain the Domestic Customer's ability to pay and must take this into account when calculating instalments, giving due consideration to:

- (a) relevant information provided by third parties, where it is available to the licensee; and
- (b) where instalments will be paid using a Prepayment Meter, the value of all of the charges that are to be recovered through that meter.

**Solution 1: Changing the register on which standing charges accrue during periods of disconnection**

The first solution is a technical change to how prepayment meters process standing charges while disconnected. This would move standing charges to the same meter register on which debt with the energy supplier is located. This would mean that a household only must repay their weekly repayment rate, which they have agreed with their energy supplier, in order to reconnect the supply.

**Solution 2: facilitating partial repayment of standing charge debt, utilising a repayment rate function.**

The alternative solution is for Ofgem to indicate a maximum weekly amount that can be charged for standing charge debt – this would effectively be a maximum cost a consumer has to repay in order to reconnect supply.

Under this scenario, Ofgem could set expectations for the maximum upfront cost a consumer should pay to reconnect their energy supply. Suppliers should then be free to establish a personalised repayment rate for standing charge debt (up to the limit set by Ofgem) according to what a consumer can afford, considering any debt they may already be repaying on other registers. This would mean that consumers repay standing charge debt over time, instead of repaying that debt before being able to reconnect the supply.

NEA would be happy to provide working examples for how each of these solutions would improve consumer outcomes.

**Q9. Do you have any views on our considerations for the allocation of network and policy costs?**

Network costs, as noted in the document, are the primary driver behind standing charge increases. Standing charges will continue to rise without intervention. In the short-term, a reallocation of operating costs from the standing charge to the unit rate will help reduce the impact of rising standing charges. But it does not go far enough to meaningfully tackle the issues of fairness and affordability that high standing charges create. It is therefore important that the consideration of the allocation of network costs progresses as quickly as possible.

In terms of reforms to the allocation of network costs, NEA is keen to ensure two outcomes. One is a progressive recovery of network costs, which can broadly be achieved by recovering through the unit rate. The second is an elimination of regional differences in network costs. It is unfair that households in some areas of the country pay standing charges twice as high as other areas of the country, despite paying for the same standards of service. Ofgem should commit to, as part of the long-term review, investigate the case for changes in areas with the highest standing charges.

NEA would like to see Ofgem begin their review of the allocation of network and policy costs as soon as possible.

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## References and Notes

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

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