

Call for Input Response

Standing Charges Call for Input

Office of Gas and Electricity Markets (Ofgem)

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About this call for input

Ofgem launched this call for input to gather views on standing charge reform. These charges represent a daily cost which energy suppliers levy onto customer bills to cover their fixed expenses (e.g. policy, infrastructure, and network costs). Alongside unit (kWh) rates, they make up the two core components of electricity and gas bills.

Key points and recommendations

- We broadly support the principle of reducing standing charges, which would represent a progressive way to shift the fixed costs of energy bills off the shoulders of those living on lower incomes.
- It would also ensure that any older person who disconnects their supply because they run out of money would not be hit with unmanageable standing charge debts.
- However, for some high energy users it could lead to significant additional costs. For example, certain customer cohorts with vulnerabilities, particularly those with disabilities or long-term health conditions who have medical equipment or rely on warmer homes, could be disadvantaged.
- Any reform should account for this differential impact and the regulator must put in place sufficient mitigation to avoid adverse outcomes for certain customer groups.
- Ofgem should consider setting an annual cap on how much a household is expected to contribute towards supplier fixed costs.
- An exemption from standing charges for customers who have self-disconnected their supply must also be considered as part of this review.
- An exemption from volumetric standing charges should be offered for customers with vulnerabilities, such as people using at home medical equipment.
- Ofgem must improve its data sources, including the Priority Services Register (PSR) and smart data, so that targeted standing charge exemptions are feasible.
- As part of this the PSR must be reformed to improve suppliers' ability to identify household needs and ensure a smoother customer journey when enrolling.

About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

Introduction

Age UK called for a review of standing charges earlier this year¹ and we welcome the opportunity to respond to this initial call for input². In principle, we are broadly supportive of reforms which fund the fixed costs of supply more progressively and make energy bills more transparent and less punitive. Reducing or abolishing standing charges would reduce the financial burden on most lower income households and stop them being hit with unmanageable standing charge debts when they run out of meter credit and turn off their supply. We are nonetheless concerned about the adverse impacts of reforming standing charges on specific groups of older customers. These include those on lower incomes with higher energy needs (e.g. people using at home medical equipment). While we support reform, this is conditional on Ofgem putting in place comprehensive mitigations to protect customers with vulnerabilities who might otherwise lose out from this policy.

Unit costs and standing charges represent the two core components of gas and electricity bills. Unit costs are the price paid per unit (kWh) of energy consumed. Standing charges represent a static daily charge on customer bills which suppliers levy to cover their fixed costs (e.g. policy, infrastructure, and network expenses). Customers are charged a daily fixed amount regardless of how much energy they use. Ofgem does not mandate suppliers to levy a standing charge, but these charges are almost universal across the tariff market.

Electricity standing charges have increased significantly since 2021. While the nil consumption rate, a proxy for standing charges, was £86 per year for the typical customer in October 2021, in just two years it has climbed to a staggering £186³. The typical gas standing charge increased by £12 over the same period, bringing the combined standing charge for the typical dual fuel customer to over £300 a year from October 2023⁴.

Standing charges create huge problems for many older people, and Age UK regularly hears from those who have faced escalating charges with little explanation. These charges are particularly punitive for those on lower incomes using very little energy. They also continue to accrue after an older person has stopped using their electricity and gas, meaning that they build debt even when they are not heating and powering their homes⁵. In recent years this has proved not only frustrating but at times dangerous – as more and more older people struggle to put credit on their meters only to find that when they do it is immediately applied to their standing charge debt instead of being used to heat their home.

At the same time, many older people have higher energy needs, including those with disabilities or long-term health conditions⁶ or reliant on at-home medical equipment⁷. This means the amount of energy they use is much higher so a shift towards a volumetric (unit) method of recouping fixed costs, instead of via daily standing charges, could create an additional burden for them.

Ofgem has rightly recognised the distributional effects of this policy and outlined some of the differential impacts if there was to be a 50% shift of standing charges into volumetric costs⁸. The regulator assessed electricity and gas separately⁹.

For electricity, overall estimates show that 11.3 million households would be net losers from the policy (with it adding an average of £20.96 to their annual bill) compared with 15.7 million who would be net beneficiaries (with their bills going down by an average of £15.07). For gas, 14.3 million households would lose (an average annual bill increase of £6.85) and 8.3 million would gain (a decrease of £11.84). Overall, the analysis shows this would lead to a lowering of the average annual electricity bill by £16.92, and gas bills by £7.44, after equivalising for income. Ofgem's proposal is progressive overall, with higher benefits accruing for those on lower incomes.

Despite this the proposal does produce differential impacts within certain consumer cohorts with vulnerabilities. For electricity, 1.2 million households in the lowest income quartile would still stand to lose out, although this figure is much lower than the 5.5 million who would benefit in this income group. The average gain for winning households is a £21.90 reduction in their annual bill, which is around half the average loss for losing households who would face an increase of around £44.52. For gas, around 1.8 million in the lowest income quartile would lose and 3.7 million would gain. The average loss would be marginal (58p increase on their annual bill) with the average gain being much higher (a reduction of £13.38). For households with someone claiming disability benefits the policy would add an average of £10.87 to their annual electricity bill and reduce their gas bill by 46p. People off the gas grid or relying on electrical heating are also more likely to lose out from the policy.

These results suggest some groups would not benefit from this reform, even if the policy is progressive overall. We are also concerned that these findings mask much bigger swings for specific groups of older people within these cohorts. For example, people with terminal illnesses can see their bills increase by as much as 75%¹⁰, so a shift towards a volumetric standing charge could see their costs spiral even further. An older person on a lower income, living in a rural property off the gas grid, who has very poor insulation, lives with multiple occupants, and needs to operate medical equipment could hypothetically face far steeper costs from this policy. Ofgem assessed 24 consumer archetypes as part of its impact assessment, which may shed further light on these distributional affects. Age UK has requested to see this data and we ask that the regulator publish it before moving onto the next stage of this review.

It is also important to recognise that an unintended consequence of standing charges is that they effectively smooth fixed costs throughout the year. A volumetric charge could concentrate the additional cost over the winter months when energy use is higher, which may lead to more older people turning down or turning off their heating as temperatures

drop. Ofgem will need to mitigate this risk and consider options such as concentrating volumetric standing charges over warmer months via the price cap.

On balance, our view is that reform is needed – both to fund the fixed costs of supply more progressively and to make energy bills more transparent. Reducing standing charges would represent a progressive way to shift the fixed costs of energy bills off the shoulders of those on the lowest incomes. It would also ensure that any older person who disconnects their supply because they run out of money would not be hit with unmanageable standing charge debts when they attempt to turn their heating and power back on.

However, our support for reform is contingent on Ofgem comprehensively mitigating the risks of this policy for specific older customer cohorts who stand to lose out. In response to the questions below we propose several ways the regulator could reduce or abolish standing charges while mitigating the negative impacts on lower income households with higher heating needs. The fundamental reform needed to avoid damaging unintended consequences should not be taken lightly and must form part of these ongoing discussions if we are to ensure older people remain protected from unfair charges.

Call for Input Questions

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?

Age UK welcomes Ofgem's efforts to assess the effect of standing charge reforms on different customer groups. Given these differential impacts there are several reforms the regulator should consider which we feel would minimise the negative impact on lower income customers with higher energy needs, while addressing the harms that standing charges can cause.

Firstly, if there is a move towards volumetric standing charges Ofgem should consider setting an annual cap on the maximum amount a household would be expected to contribute towards supplier fixed costs. Once customers meet the annual threshold for contributions then the volumetric standing charge could be removed from the rest of their bill. This would mean people using medical equipment or with far higher energy needs who are struggling on a lower income won't continue paying these charges on their higher energy consumption.

The regulator must also directly protect customers with vulnerabilities from the effects of this policy. An exemption or reduction in standing charge costs for certain customer groups, such as people with health conditions that make them more vulnerable to the cold or those using at home medical equipment, must be implemented. We discuss some methods of targeting this exemption in response to question 13.

Accumulation of standing charge debt for people who have self-disconnected must also be addressed. Customers who have stopped using their electricity and gas (referred to as 'self-disconnection') are still expected to pay a daily standing charge. This is particularly punitive for prepayment meter (PPM) users, who are expected to pay off any standing charge debt before accessing their supply¹¹. One intervention Ofgem should explore is a standing charge exemption or reduction for people who have self-disconnected or cut their energy consumption below their needs. This would avoid the frustrating and often dangerous situation where people who have run out of money and turned off their supply still accrue additional debt.

Ofgem must also be mindful of existing market mechanisms which could immediately help with standing charge costs. Some suppliers have begun implementing discount tariffs this winter for specific consumer groups. We encourage the regulator to work with providers to assess if tariff options which also mitigate the impact of standing charges on lower income households could be implemented immediately.

Ofgem also needs to work to reduce the fixed costs associated with supplying energy. While we are keen to see the Review of Electricity Market Arrangements (REMA) usher in a more efficient and cheaper energy system¹² there are things the regulator could do in the short-term to keep costs down. Most notably, the Supplier of Last Resort (SoLR) mechanism, which levies an additional expense onto standing charges for the cost of recent supplier failures, cannot continue to be so unsustainably high. Ofgem is responsible for ensuring that the risk of future market exits is mitigated and has made good progress towards this end¹³. This, and wider market reforms, would help keep standing charge costs down for everyone.

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?

Enhanced data matching is fundamental to this. If done properly, and with sensitive consumer information comprehensively safeguarded, it could greatly improve customer outcomes. Ofgem should consider using a combination of the Priority Services Register (PSR), smart data, and other sources to ensure products like targeted standing charge exemptions are practical.

To achieve this the PSR must be reformed to improve the identification of need and ensure a smoother customer journey when enrolling. The limitations of the existing PSR must be recognised and firms need to be more ambitious than the Register's standard obligations to better serve their customers. We strongly agree with Ofwat's recent recommendation¹⁴ that providers should go beyond just recording the medical conditions of customers with vulnerabilities and should instead record their needs as well, especially during an emergency. We would welcome Ofgem making a similar commitment. More work also needs to be done to make customers aware of the PSR and the need to update their status so that bespoke support is better directed.

Ofgem should also encourage suppliers to use smart data and customer billing information to investigate providing further support, like standing charge exemptions. For example, if a customer suddenly starts using far more energy than usual then suppliers should speak with the customer to check if they have recently installed medical equipment or another energy intensive device in the home which might indicate a customer vulnerability.

Finally, we would encourage the regulator to create broader referral pathways for the PSR to reduce the burden on customers to come forward directly. With customer consent, these pathways could allow health providers and trusted third party intermediaries to request additional support on behalf of a customer. This would allow health professionals and frontline charity sector bodies to request support for someone in need once permission is granted.

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

Ofgem's non-domestic market proposals are focused on standing charges for businesses and commercial entities. The regulator must also review how standing charges impact non-domestic residential households, like park home and care home residents. We provided extensive detail on the issues faced by non-domestic residential households in a recent response to the regulator¹⁵ and would welcome the opportunity to work with Ofgem on this component of standing charge reform.

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- ⁹ According to Ofgem, fully abolishing standing charges would effectively double the effects we outline in our introductory section.
- ¹⁰ Marie Curie, 2023. One Charge Too Many. Marie Curie. [Online]. Available at: <https://www.mariecurie.org.uk/globalassets/media/documents/policy/dying-in-poverty/k406-povertyenergyreport-finalversion.pdf>. [Accessed 30/11/23]. Pg3.
- ¹¹ See: NEA, 2021. Fuel Poverty Monitor. National Energy Action. [Online]. Available at: https://www.nea.org.uk/wp-content/uploads/2021/11/0000_NEA_Fuel-Poverty-Report-and-Exec-Summary_v2.pdf. [Accessed 04/12/23]. Pg37.
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