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22 January 2024

Dear James,

We welcome Ofgem's publication of data on the drivers of standing charges. This clearly sets out the key components of these costs: supplier operating costs and, in electricity, network costs. The latter have been recently reformed following Ofgem's Targeted Charging Review (TCR), with changes that have seen some costs from unit rates to standing charges.

We broadly supported these reforms, which reduce the ability of some consumers to avoid paying their fair share of costs, and will deliver overall savings through a more efficient energy system.¹ While they led to higher standing charges they also put downward pressure on unit rates, although in practice the latter has not been felt by consumers due to large increases in wholesale prices which have meant millions of households are struggling with their bills.

We recognise that many consumers find standing charges hard to understand, and that they can appear unfair if it's unclear what costs they go towards. They can be particularly challenging for low energy users, for whom they make up a larger part of the bill, and those on prepayment. As the statutory advocate for microbusiness consumers, we're aware these issues can also affect non-domestic consumers. Despite this, we have concerns that a short term response to these concerns could lead to poorer outcomes in the long run.

Reallocating costs for all consumers would typically have low benefit and could lead to unintended consequences

We recognise that Ofgem has not set out the full range of actions it could take following the Call for Input. However we have 3 main concerns in relation to adjusting how costs are allocated between unit rates and standing charges, without reforming the costs that underpin them.

¹ Citizens Advice (2019) [Citizens Advice response to Ofgem consultation: Targeted charging review: minded to decision and draft impact assessment](#)

1. For most consumers, the impacts of reallocation are very small

Ofgem's assessment shows average change in bills from a reallocation of 50% of standing charges into unit rates for electricity would result in households being an average of £15 better off for those who gain, and £21 worse off for those who lose out. The changes for gas would be smaller, with £11 better off for those who gain and £7 worse off for those who lose out. At current price cap levels this is around 1-2% of the total bill for a typical bill-payer. These changes are too small to have any meaningful impact on the affordability challenges faced by millions of consumers.

2. Reallocation leads to some unfair outcomes

Some arguments for standing charge reform rest on there being a clear link between income and energy usage, when in fact these are fairly loosely correlated, with significant outliers in both the low and high income groups.

Reallocating costs will mean households with higher usage will lose out regardless of their income or the reason they use more energy. We're particularly concerned about the impacts on people with disabilities or health conditions who need a warmer home or medical equipment that means they have higher usage.

Some people also have higher usage due to their heating technology and energy efficiency. Ofgem's analysis shows lower income households with storage heaters may be particularly hard hit. These consumers already pay a disproportionate share of policy costs to fund renewables, as these are largely recovered through electricity unit rates. Higher electricity unit rates would also make switching to heat pumps more expensive, at a time when existing policy costs already act against the uptake of this technology.

It will also be hard for consumers to mitigate the impacts of these changes. Proponents of lower standing charges and higher unit rates often say this will better incentivise efficiency, but many on lower incomes or in rented homes find it hard, or impossible, to make efficiency improvements. Even where people can save, the share of their reductions from efficiency that relate to their fixed costs will still need to be recouped. This will mean that unit rates will need to be further increased, exacerbating the situation for those who can't reduce their usage.

Some have suggested that prepay users will particularly benefit from lower standing charges, because they can build up unpaid standing charges as a 'debt' if they disconnect. This can act as a barrier to reconnecting. We recognise this challenge, but are concerned that moving to higher unit rates would also have negative implications for prepay customers, as this would increase

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their seasonal variation in energy costs - making the winter months harder and more expensive, and potentially increasing the risk of disconnection in this period.

As well as some households being unfairly harmed by reallocation, some affluent households will also see gains from lower standing charges. People who split their time between multiple homes would see significant benefits, as they would appear as lower users in each of their properties. People who generate and store their own power would also benefit by minimising their imported energy to avoid paying their fair share of fixed supplier and network costs. This is in addition to already avoiding paying many of the policy costs in unit rates, and in some cases benefiting from generous feed-in tariff payments. Tackling this issue was a key aim of the TCR.

3. Ofgem cannot easily mitigate the negative impacts of reform

We're aware of some suggestions that Ofgem can intervene to mitigate these negative impacts. Approaches that have been suggested include applying some sort of exemption from reallocation for certain consumers, or applying a lower standing charge more narrowly in the first place. In each case eligibility criteria would be required, with Ofgem choosing which groups of consumers should gain or lose. This goes beyond Ofgem's traditional approach as a regulator which has avoided making decisions about pricing that can reasonably be considered social policy. It would also be a shift from a market in which consumers make choices about their products to one in which the regulator is doing so.

The practical application of these criteria is also likely to be challenging. Consumers cannot be easily identified based on characteristics or income without access to data held by the Government. Without this information, suppliers could be asked to identify consumers on a case by case basis, which would be administratively complex, as well as burdensome for consumers who need to identify if they are eligible and know how to access these products.

Requiring a reallocation of costs between standing charges and unit rates is also likely to have differential impacts on suppliers. Those with a greater proportion of lower energy users would not recoup their costs. In general, this would act as disincentive to serve these customers. A reconciliation mechanism could ensure costs were fairly shared, though this would add further complexity, and a reconciliation of the operating costs portion of the standing charge would be anathema to competition in the market.

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Action to require suppliers to offer more tariffs without standing charges carries risks

Rather than reallocating these costs across tariffs, Ofgem could require suppliers to offer zero standing charge products for customers who wish to choose them. This is likely to face many of the same risks and challenges set out above, including around deciding which consumers are eligible to avoid people accessing tariffs to achieve 'unfair' savings, and how suppliers can ensure they are able to recover their fixed costs in the absence of a reconciliation mechanism. More broadly, additional regulatory requirements for suppliers to offer certain types of tariffs may act contrary to the longer term changes to make the market more innovative and responsive to consumer needs.

Suppliers are already able to offer low or zero standing charge products if they wish, and Ofgem could also choose to pursue voluntary steps to make them more widely available. These tariffs usually require much higher unit rates on at least some of the units of energy used, to manage the risk of not recovering their fixed costs. They may be beneficial for some, but it's important that suppliers are transparent about which consumers would be most likely to benefit.

We're concerned that there have been occasions when these were offered previously where they were poorly explained by suppliers, with some people choosing tariffs that didn't necessarily offer them the best outcome based on their own usage, or if people were over-optimistic about their ability to reduce their consumption. The current focus on standing charges in the media could increase this risk if they were to re-emerge more widely. Ofgem should be vigilant to risks around informed choices and supplier transparency if these tariffs are offered more widely, and take these into account as part of any decision to prompt their wider use.

There are important steps Ofgem should take to protect consumers

We don't consider it prudent for Ofgem to continue with activity looking at standing charges as a standalone project. This is informed by the generally small benefits Ofgem has identified from reallocating costs, the clear complexities and unfair outcomes of any simple reallocation, and our concerns regarding the viability of any measures to force or encourage suppliers to offer tariffs without standing charges. There's also a significant opportunity cost to continuing work in this area, given the pressing need for reform of other aspects of the retail market.

Ofgem also raises the regional variation in standing charges as part of its Call for Input. These are driven by different network and supplier costs in different parts of the country. Any further activity to consider whether regional pricing remains appropriate should be undertaken with the

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Government, given its role in managing existing cross-subsidies that reduce network costs for consumers in North Scotland and its ongoing Review of Electricity Market Arrangements, which is considering options for local wholesale pricing.²

We think there are important steps Ofgem should take through its wider work to ensure the fixed costs that feed into consumer bills are reasonable, and minimised wherever possible. This includes:

- Using the upcoming review of supplier operating costs in the price cap to keep these at efficient levels, pass through the savings of changes like smart metering to consumers and ensure that only fixed aspects of these costs are reflected in the nil consumption level of the price cap.³
- Continuing to ensure that consumers who prepay are appropriately protected from the risks of self-disconnection, including support from suppliers with standing charge debts where this is a barrier to getting back on supply.
- Using the network price controls to keep network costs at efficient levels, recognising that costs are likely to rise in the coming years.

We also support Ofgem's plan to conduct a post-implementation analysis of the TCR. We agree there must be a high bar to reopening any decisions from this process, given the time this would take, the savings this reform delivered and the need for stability in the charging regime. It would have been beneficial for this analysis to be completed ahead of the publication of the Call for Input, in order to enable a fully informed discussion.

Going forward, Ofgem should also endeavour to improve its communications around standing charges. These are common in utility sectors, and where companies face fixed costs, it is likely that standing charges will be an efficient option to recover them. As such they are likely to persist in the sector in the coming years. Ofgem should ensure that following the Call for Input it is able to more clearly explain why the market might deliver a limited range of products without standing charges, and to justify why it considers its decisions on reforms like the TCR are in the best interests of consumers.

More broadly, Ofgem will need to communicate effectively on other issues related to costs during the transition to net zero given the significant changes underway and the distributional

² Citizens Advice (2023) [It's all about location - Will changing the way we price electricity deliver for consumers?](#)

³ Citizens Advice (2023) [Citizens Advice response to the Ofgem working paper about energy price cap operating cost review benchmarking](#)

impacts that may arise - perhaps most significantly in relation to market-wide half hourly settlement.

With prices still high above historic levels it's vital that consumers who cannot afford their energy are supported, and the regulator does have an important role to play. For example, we support Ofgem's reforms to reduce the cost differential for consumers who use different payment methods, especially prepay given the additional risks that they face and the fact they may not have chosen their payment method. At the same time, it's important to recognise the limits of regulatory action. Changes that move money between consumers should be pursued with great care, given they have limited benefit, lead to higher costs for some and risk unintended consequences.

The Government is best placed to take steps which can meaningfully reduce the costs faced by consumers on low incomes and ensure a fair transition to net zero, including through better targeted energy bill support and improved energy efficiency schemes. In the coming months Ofgem should play an important role in informing policymakers in government about these issues, based on its analysis of issues like energy debt and disconnection, and its experience administering existing schemes.

Yours sincerely,

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