



Written evidence to the Energy Security and Net Zero Select Committee from Citizens Advice

1. Executive summary

- It has now been two years since the invasion of Ukraine triggered a significant rise in the cost of energy. Energy bills are currently 50% higher than 2021 - leaving millions of households struggling to safely heat and power their homes.
- Rising standing charges have come under scrutiny as a way of reducing energy bills, but reallocating this money between standing charges and unit rates does not address our overall concerns around affordability, while also creating unfair outcomes.
- We support the levelising of costs between Direct Debit and PPM consumers as some consumers will not have made a choice to be on a PPM, and they may be vulnerable. However we do believe that there should be some economic incentive for consumers to choose the most efficient billing method.
- The most effective way to address inequalities in energy billing is for the Government to bring forward a targeted package of bill support for low-income households.

2. About Citizens Advice

Citizens Advice gives people the knowledge and the confidence they need to find their way forward - whoever they are, and whatever their problem. Our network of independent charities offers confidential advice online, over the phone, and in person, for free.

Last year we helped 2.6 million people in person, by phone, email or webchat. Our advice website had over 25 million visits, with 34 million pages viewed (based on pageviews of at least 30 seconds). We provided support in 2,588 locations in England and Wales delivered by over 22,000 volunteers and 7,000 staff. We use our evidence to show how things can be improved for people.

3. Submission

Standing Charges

Standing charges are fixed charges as part of energy bills, and they should reflect costs which are largely fixed regardless of how much energy a household consumes. These are made up of two main elements - the supplier's operating costs including billing and metering; and (for electricity) charges for the network. Some have argued that these charges are unfair as they penalise low-consumption, low-income households where the standing charge makes up a greater proportion of their bill.

However, reducing or eliminating standing charges and reallocating this money to unit rates is likely to have a negligible effect on the energy costs that the majority of households face, while creating unfair outcomes for some of those on the low incomes.

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.¹

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, but risk having a negative impact on low-income, high-consumption consumers whose budgets are already stretched.

Reallocating costs from standing charges to unit rates would create some unfair outcomes, as the evidence shows there is a relatively weak link between income and energy usage, with significant outliers at both ends of the spectrum. This would particularly impact those who are unable to reduce their usage.

Some groups of consumers would also be more likely to lose out based on their energy needs and types of usage, including:

- people who have higher energy usage because of medical equipment or greater need to stay warm
- people with electricity storage heaters — this group are particularly hard hit and already pay a larger proportion of policy costs, as these fall more heavily on electricity than gas
- people who use heat pumps — our net zero targets rely on more people using these in future, and higher costs could make targets for installation harder to reach
- prepayment customers, for whom higher unit rates would also lead to more seasonal variation in their energy costs - leaving them at higher risk of disconnection in the colder months
- renters, and those on low incomes who cannot make efficiency improvements to their homes that allow them to reduce their usage

Reducing standing charges could also mean more affluent households could avoid paying their fair share of network costs in ways that are clearly unfair. This would include:

- households with solar panels and batteries who can reduce their energy usage significantly — this would undermine the aim of Ofgem's network charging reforms (through its Targeted Charging Review) and be a further giveaway for a generally affluent group that are already able to avoid policy costs which are recovered through unit rates.
- people who have second homes, who would pay a lower share of fixed costs per property than someone with the same overall energy usage who lives in a single

¹ Citizens Advice response to Ofgem call for evidence on standing charges:
<https://www.citizensadvice.org.uk/policy/publications/citizens-advice-response-to-ofgems-call-for-input-on-standing-charges/>

property.²

Reform of standing charges is not an effective tool for addressing issues with energy affordability. We believe that the standing charge remains the fairest and most efficient way for the fixed costs associated with energy to be collected by suppliers. Ofgem must continue to use its powers to ensure that these costs are as efficient as possible for consumers, and for default tariffs, allocated appropriately through the price cap.

Billing, PPMs, Standard Credit and Direct Debit

We support steps taken by Ofgem to remove the differential costs between direct debit and prepayment in view of the fact that for some consumers prepay is not a choice they have made and many prepayment customers are vulnerable, and are disconnected if they can't afford their energy.

We are concerned about the rising differential for standard credit, and support Ofgem proposals to reduce this by sharing the costs of debt across a wider range of customers. However, given the higher risk of debt and cost to serve associated with standard credit we think some differential remains appropriate as an incentive for consumers to choose the most efficient method of billing.³

Prepayment meters can be a legitimate tool for debt management and can support some consumers with budgeting. However we have seen suppliers abusing this process and PPMs have been installed where it was not appropriate for the household.

The impact of high energy prices and the wider cost of living crisis has meant that the risks associated with force-fitting a prepayment meter are far more significant now compared to when the rules around involuntary PPM were first introduced. As such, we believe that Ofgem has taken the correct steps to introduce new, tougher rules in this area, including excluding some particularly at-risk groups from forced installation.⁴

Enforcement and monitoring are vital to ensure that these changes deliver meaningful and lasting improvements in suppliers' actions and in outcomes for consumers. We have been encouraged both by Ofgem's recent approach to monitoring and enforcement through tools such as Market Compliance Reviews, and by the proposed monitoring arrangements set out in the statutory consultation. Together, these provide a more secure basis to safeguard vulnerable consumers in the future.

We're monitoring the impact of the recent restart of PPM force fitting on consumers closely, and are clear that Ofgem must intervene swiftly if there's evidence that the rules have been broken.

² Citizens Advice blog: Why standing charges are fairer than you might think.
<https://wearecitizensadvice.org.uk/why-standing-charges-are-fairer-than-you-might-think-0af937499149>

³ Citizens Advice response to Ofgem consultation on levelling the cost of standing charges
<https://www.citizensadvice.org.uk/policy/publications/citizens-advice-response-to-the-ofgem-consultation-on-levelling-the-cost-of-standing-charges-on-prepayment-meters/>

⁴ Citizens Advice response to Ofgem consultation on involuntary PPM installations
<https://www.citizensadvice.org.uk/policy/publications/statutory-consultation-involuntary-ppm/>

Without PPMs there could also be a rise in other debt management practices by energy firms such as CCJs; and also wider levels of bad debt which would increase prices across the board. We expect firms to continue to show forbearance to consumers and support them, including through affordable repayment plans and payment holidays, where appropriate.

Community benefits and discounts

We support funds for communities in which infrastructure is developed, which are well established across various sectors. Community funds might be the best way to distribute benefits equitably, provided that the community is resourced to manage the funding they receive and target the money to less advantaged residents.

There are important fairness considerations with direct bill discounts - for example, people living next to established energy infrastructure will pay to subsidise those having new infrastructure installed, and people on low incomes may be subsidising more affluent consumers.

We therefore support bill discounts to the extent that it can be shown that they make it quicker and cheaper to build the infrastructure we need, and reduce consumer bills overall compared to a system without discounts. We are concerned that the current evidence base for this is not strong enough.

Targeted support for energy bills

We believe that a better approach to tackling issues around domestic energy bills would be targeted bill support. We believe the best model for targeting bill support is through a discount on bills, to ensure that recipients can still benefit from energy efficiency measures and from engaging with the market.

The Government promised in the 2022 Autumn Statement to bring forward a long-term package of targeted bill support by April 2024. However work on this has stalled and no announcements have been made.

Despite this delay, the need for bill support remains urgent. Our most recent report, [Shock Proof](#), found that this winter around 2 million people disconnected from their energy due to being unable to top up, and 2023 was our busiest ever year for helping people with energy debt.⁵

The existing Warm Home Discount provides the most straightforward framework for delivering targeted bill support in the short term, and could be made more flexible to deliver higher levels of support to those with the highest costs, and to a wider group of working-age recipients on low incomes.

⁵ Citizens Advice, Shock Proof
<https://www.citizensadvice.org.uk/policy/publications/shock-proof-breaking-the-cycle-of-winter-energy-crises/>

The WHD currently provides £150 to all eligible households, but this has not risen commensurate with the rises in energy prices. The current WHD works by matching households on eligible means tested benefits, assessing their energy needs based on the characteristics of their house, and providing support for those above a single 'high cost' threshold.

A tiered approach would use the same mechanism but have multiple thresholds, so that those above the first threshold get a higher payment, and decreasing levels of support for those with lower energy needs. This would expand support and remove the steep cliff edges that would arise from simply increasing the existing WHD.

We modelled support that provides around a third of typical energy bill to those with the highest needs (currently around £600). This level of discount was supported in previous work on bill support options based on in-depth research with the public and experts, and is shown by our analysis to have a significant positive benefit on energy affordability. Unlike the current scheme, the level of support should be responsive to price changes.

The total cost for this scheme would be within the existing spending envelope for energy bill support. This is largely government funded with billpayers also making a contribution, and we expect the same funding arrangement would be maintained.

This would target those most at risk of debt and disconnection, and could be designed to offset the effects of higher standing charges, while avoiding the unfair outcomes related to increasing unit rates detailed above. Targeted bill support is also essential in the longer term to help smooth the impact of energy reforms that are essential to delivering net zero.

4. Recommendations

Ofgem should ensure that the fixed costs associated with standing charges remain as efficient and possible for consumers.

Ofgem should act to level the costs of prepayment versus direct debit to protect vulnerable consumers who may not have chosen prepayment. Ofgem should also address the rising gap between standard credit and direct debit billing arrangements.

Funds for those who live close to energy infrastructure are likely to be best delivered through community funds that can ensure the funding they receive for living near infrastructure supports those on low incomes.

The Government should bring forward a package of targeted bill support, based on the Warm Home Discount. This would have the biggest and most targeted impact in addressing the ongoing challenges that low income households face in affording energy. Targeted bill support such as a social tariff will continue to remain important in the transition to net zero.

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2 Feb 2024