

StepChange response to Ofgem call for input on standing charges

January 2024

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Summary

StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2023 over half a million people contacted StepChange seeking debt advice or guidance with their problem debt and over 180,000 people completed full debt advice through our online and telephone service.

We welcome the opportunity to respond to this call for input. Energy affordability is a major public policy issue and Cornwall Insight projections suggest that high energy bills are likely to remain in place until at least the 2030s.¹ While standing charges reform would not address energy affordability challenges as a whole, it is still a welcome and worthwhile consideration which, if executed appropriately, could bring about notable positive changes for some financially vulnerable consumers.²

Ofgem's analysis has made it clear that reducing or scrapping standing charges would benefit a considerable number of low-income households but could cause challenges for some vulnerable high energy users. StepChange is very mindful of the sensitivity and complexity of these issues but simultaneously recognises the value in addressing unfairness and inherent disadvantages for low-income, low-usage households embedded in the current system.

As such, StepChange would encourage Ofgem to actively explore options for standing charges reform while putting in place mitigations to ensure vulnerable high energy users are protected. We also remain strongly of the view that holistic reform of the energy funding model is needed to deliver long-term affordability to those at risk of fuel poverty and to provide sufficient protection and assistance to those struggling with energy debts.

¹ Cornwall Insight (2023) [New forecast warns power prices to remain elevated until late 2030s](#)

² National Energy Action (2023) [Social Tariff Letter](#) and HM Treasury (2022) [Autumn Statement 2022](#)

Responses to questions

Q4: As a result of TCR and changes to the recovery of residual costs, domestic consumers with very low consumption now bear a share of fixed network costs which is more in line with the cost of maintaining access to gas and electricity networks. Is this fair? Should more be done to shield these customers from these costs?

Energy standing charges have risen by over 65% on average since April 2019, a substantial increase which has recently drawn considerable public attention and consternation from many consumers in the context of wider cost of living pressures.³ This increase is especially troubling for those on low incomes and prepayment meters (PPMs), as well as those with low energy usage – and there is notable overlap between these groups. We are glad to see Ofgem recognise that standing charges are a particular burden for some consumers in this call for input, and especially those at the lower end of income distribution.

In the first half of 2023, 43% of StepChange debt advice clients had energy arrears and 33% had a negative budget, meaning after going through a full debt advice and budgeting session, their monthly income is not enough to cover their basic monthly costs. High standing charges can present considerable problems for clients in these positions, who are often trying to reduce energy usage wherever possible – but are still left unable to avoid these fixed daily costs, even if their energy usage is reduced to zero. Under the current price cap, the average household can expect to pay around £300 a year on standing charges, even without having used any energy at all. For those with little to no money available, even before essential bills and expenses are paid, this presents an extremely difficult challenge.

A quarter (24%) of StepChange clients had a PPM in the first half of 2023. The current standing charges set-up is particularly challenging for this customer cohort, as standing charges accrue even when no energy is being used and these costs must be cleared before a PPM customer can access energy again – so a household which has gone off supply or used no gas over summer, for example, faces barriers to access until this upfront cost is paid. High standing charges can therefore lead to bill shocks and worryingly impact the likelihood of self-rationing among PPM customers.

A StepChange debt advisor described how they have heard from multiple clients facing problems with standing charges. They highlighted one challenging experience a PPM customer faced below:

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*In this example, it was an elderly gentleman whose gas was on a prepayment meter, whereas he had a credit meter for electricity. He had not topped up his gas meter over the summer, and as a result there was a **minimum payment of £40 to make for the accumulated standing charge.** Only credit above that amount put onto the meter would go towards buying actual gas.*

*The **client could not afford the £40**, and as a result was forced to use electric fan heaters to heat his home. These are obviously a far less efficient means of heating than the gas boiler, and will result in his energy bill being much higher overall. Energy companies advise customers to keep topping up gas meters over the summer to cover the standing charge, however this is **often not practical for clients on very small incomes.***

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³ National Energy Action (2023) [Standing charges response: ‘How can it be right that someone who can’t afford any energy pays a daily charge that is the same or more than someone in a mansion?’](#)

Moreover, energy customers with low consumption are disproportionately impacted by high energy standing charges, as a larger percentage of their bill goes towards these unavoidable fixed costs. Ofgem analysis consistently shows that there is a significant correlation between low energy usage and low income. This is reinforced by 2023 research from National Energy Action (NEA), which estimates that standing charges totalling £350 per year – the average amount PPM customers could expect to pay before efforts to equalise these costs across payment methods began in summer 2023 – account for 41% of what those in the poorest 10% of households have available to spend on energy, leaving them with only £508 worth of gas and electricity every year.⁴

As it stands, all domestic customers pay the same amount of electricity network costs, regardless of their consumption, energy efficiency or size of property. It is clear that low-income households and those on PPMs face disadvantages when it comes to high standing charges compared to other, often more affluent groups, with unfairness arguably built into the current system. Given the number of people like many StepChange clients who are struggling to manage energy costs and likely to be negatively impacted in this context, StepChange would welcome Ofgem's efforts to investigate the possibility of standing charges reform which would improve the experiences of these groups while protecting vulnerable high energy users.

As Ofgem rightly highlights in this call for input, households at lower income levels will value a reduction in their bill more than higher income households, and we strongly agree that this should be reflected in calculations when deciding policy. Moreover, Ofgem analysis in this call for input shows that:

- **5.5 million low-income households** would benefit from a hypothetical transfer of 50% of billing from standing to volumetric charging for **electricity** (reduction of £21.90 p/y average), while approximately **1.2 million** low-income households would lose out as a result (increase of £44.52 p/y average).
- When it comes to gas, the same move would see **3.7 million low-income households** benefit (reduction of £13.38 p/y average), and **1.8 million** low-income households very marginally lose out (£0.58 p/y average).

It is worth emphasising that these calculations show that more low-income households would benefit from this method of reform than would lose out; however, the vulnerability of some of those who would see energy bills increase must be considered here. Citizens Advice in particular has noted some of the challenges in safely identifying and protecting vulnerable high energy users, and has described a number of possible risks if standing charges reform was to be pursued.⁵ StepChange recognises some of these concerns and firmly believes that any reform must be accompanied by protections for vulnerable customers with high energy consumption needs, such as those living with health conditions, disabilities or illnesses which require a warm home or constant electricity supply.

Q9: What measures could Ofgem take to improve the range of tariffs available to domestic retail customers?

We would urge Ofgem to do further work to encourage energy suppliers to offer tariffs which pass a portion of fixed costs on via unit rates or innovate in other ways to reduce the current burden of high standing charges on low-income, low-usage energy customers.

⁴ Ideal Economics and National Energy Action (2023) [Reforming energy standing charges for prepayment customers](#)

⁵ Citizens Advice (2023) [Why standing charges are fairer than you might think](#)

However, we note that there appears to be limited appetite from firms at this moment in time and therefore a degree of uncertainty as to whether this approach would be successful. Moreover, this approach would not deliver any guarantee to customers that a wider range of tariffs, including those that shift some of the current standing charges costs to the unit rate, would actually become available.

The call for input states that there is “nothing stopping [suppliers] from producing a product with a zero standing charge and offering it to their customers.” While this may be technically true, it is not translating practically, and we would welcome more clarity as to the barriers and reasons suppliers have not done so and steps by Ofgem to increase supplier confidence in the sustainability of such tariffs.

Any regulatory efforts to encourage suppliers to innovate and offer genuine choice to consumers, including those who would benefit from lower standing charges, are very welcome, but we do not consider this alone an adequate solution to the negative impacts of high standing charges.

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?

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?

While StepChange welcomes the prospect of standing charges reform designed to bring about positive changes for many low-income, low energy users, we are conscious of the nuanced considerations involved and the need to protect vulnerable customers with high energy consumption needs. It is crucial that customers who fall into this category – for example, those who are dependent on medical equipment or a warm home – do not end up paying significantly more for their energy bills as a result of potential changes to the current system. We would also encourage Ofgem to consider measures designed to protect low-income households which are off gas or rely on electric or communal heating.

One possible way to square the circle – essentially, lower standing charges whilst ensuring there are protections in place for vulnerable high energy users – is to do so alongside the implementation of an energy social tariff which protects vulnerable consumers, including those on the lowest incomes. However, we understand that Ofgem cannot do this itself: a social tariff can only be introduced by Government. StepChange has called on the Government to take forward a social tariff in the energy market and we remain strongly of the view that this is an essential step to achieve energy affordability for all financially vulnerable groups.⁶

We note that Ofgem CEO Jonathan Brearley said in January 2023: “we think that there is a case for examining, with urgency, a social tariff that limits the impact of extremely high prices and reduces volatility for a defined set of vulnerable groups.”⁷ We think it is important that Ofgem continues to articulate the reasons it is imperative Government examines a new approach to consumer energy price protection.

In the, hopefully temporary, absence of Government intervention, StepChange would encourage Ofgem to consider measures which might enable progressive standing charges reform and provide benefits for

⁶ HM Treasury (2022) [Autumn Statement 2022](#); HM Government (2023) [Powering Up Britain: Energy Security Plan](#); and National Energy Action (2023) [Social Tariff Letter](#)

⁷ Ofgem (2023) [Jonathan Brearley's speech at the Institute for Government](#)

low-usage, low-income households while avoiding negative consequences for vulnerable high energy users.

NEA has shared several possible policy actions and solutions geared towards reforming standing charges and reducing the inequalities certain customers face in the market, while building in mitigations to protect vulnerable customers with high energy consumption needs. StepChange would urge Ofgem to seriously explore and consider the viability of these options, alongside other recommendations, and report back to stakeholders on its findings at speed.

We especially note proposals to make standing charges work better for PPM customers, with a quarter of our clients being on this meter type in the first half of 2023. Options put forward for consideration include:

- reallocating some of the standing charges to the unit rate for PPM households only;
- the introduction of standing charge freezes in certain well-defined situations (for example, being used to reduce the build-up of debt during self-disconnections); and
- moving standing charge accrual ‘to the back’ of PPM meters (which would enable users to pay accrued standing charge costs in a reasonable way over time but not prevent them from accessing energy supply in the interim, minimising the risk of self-disconnection).

These moves seem sensible and could feasibly help PPM customers in practical and meaningful ways. In theory, vulnerable customers with high energy consumption needs should not be on this payment method due to the risks of self-disconnection. As such, concentrating on adaptations for PPM customers – at least as a starting point – could to some extent tackle the challenge of protecting vulnerable high energy users. As PPM customers are currently one of the groups most disadvantaged by high standing charges, targeted reform for this group could be particularly beneficial.

Reform targeted towards PPM customers would have to come with extremely tight monitoring and enforcement around poor supplier practice and inappropriate installations, so vulnerable customers with high energy usage do not slip through the cracks and end up on this meter type. StepChange recently sent Ofgem a summary of over 200 social policy case studies relaying client experiences with energy suppliers, which included numerous clients who have been threatened with PPM installation, despite this meter type being inappropriate for their personal circumstances. Other clients have described already being on prepayment meters whilst having vulnerabilities which make this unsuitable, including those with essential medical equipment and at risk of disconnection. The new mandatory PPM license conditions and guidance should help to improve this situation; however, Ofgem must ensure compliance and best practice, and act urgently to address supplier practice that falls short of the rules.


If implemented and monitored effectively, intervention on PPM could arguably minimise negative distributional impacts while supporting a group of customers which is currently disadvantaged, but further research is needed to assess how this would translate in reality. We would welcome steps by Ofgem to explore the viability of a range of options for standing charges reform, and to assess their overall impact on different groups.

Any action taken should be designed to improve outcomes for low-income households disadvantaged by the current standing charges set-up, while protecting vulnerable customers with high energy consumption needs.

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