

**FUEL
POVERTY
ACTION**



**ENERGY
FOR ALL**

Fuel Poverty Action Response To Standing Charges Call For Input

January 2024

Fuel Poverty Action is a grassroots organisation taking action against inflated energy bills and working towards an affordable, sustainable and democratic energy system.

We have campaigned for many years against the UK's unfair, unaffordable and environmentally damaging energy pricing system. Standing charges are a key part of the problem. They punish those with the least money and lowest energy usage. This is not just unethical and dangerous, but also flawed economically and environmentally. High energy consumption forces us to use more expensive and damaging energy sources. So our energy pricing system is upside-down and needs urgent reform.

We strongly welcome that Ofgem has agreed to review standing charges again, and to consider a rising block tariff to replace them. Fundamental change is long overdue. As the Parliamentary Energy Security and Net Zero Committee concluded:

"The current standing charge structure is unfair and regressive and penalises those on lower incomes or who are actively reducing their energy usage. The Government should engage with Ofgem to revise the standing charge model and replace it with a rising block tariff"

We strongly agree that replacing standing charges with a rising block tariff would be fairer, safer and greener. This is a key part of our [Energy For All](#) proposal which has already gained support from over 100 other organisations and over [660,000 petition signatures](#). The New Economics Foundation also modelled a rising block tariff to deliver a [National Energy Guarantee](#). Both proposals include free essential energy to ensure that everyone stays safe and can live a decent life. This is the opposite of a standing charge system where £300 is charged for zero energy.

Standing charges are the energy poll tax. The cruelty of hitting the poorest and coldest people hardest has generated huge public opposition. Made even worse by the doubling of electricity standing charges, given that electric only households have the highest incidence of fuel poverty and tend to be more vulnerable. Surveys of the public show overwhelming support for getting rid of standing charges, e.g. 94% of the 45,887 surveyed by Organise.

Change is needed urgently. The harm being done by standing charges is significant. They force people off supply, to go without heating, or go without food. Energy For All does the opposite - it removes the barrier to energy, and provides a universal safety net to keep everyone on supply, with the essential energy to stay warm, safe and healthy.

Whilst we welcome the review, the initial paper concerns us. Much more time is spent justifying standing charges, and the huge increases, rather than looking at the negative impacts and alternatives. Ofgem seems convinced that standing charges should stay (perhaps reduced), and are “a common feature of other sectors”. In reality, standing charges are very rare. Food retailers have high fixed costs, but thankfully don’t charge a grandmother £5 to enter a shop to buy a loaf of bread. It would be considered cruel. Standing charges are actually not common even amongst the most aggressive profit maximising companies. Water is one of the few standing charges, but still under £50 for access to their vast water and sewerage network, compared to c.£300 for access to electricity and gas. That’s another reason for the strong public opposition.

It is horrifying that standing charges are used to force those in energy starvation to pay the huge overheads and salaries of the energy retailers, who in return deliver inflated bills (many with errors) and threaten them with home invasion. And to pay £billions for failed energy firms.

Energy standing charges make even less sense when you consider the industry economics and environmental impacts. Whereas in most industries costs fall as volume increases, with electricity generation and distribution it is the complete opposite. Higher consumption forces us to use higher cost and more polluting generation sources, and to spend huge sums on increasing capacity. We face a huge and expensive battle to cope with both rising demand and decarbonisation. So high usage should cost more per unit, and low usage less. This is why a rising block tariff makes sense, and another reason why standing charges are wrong.

We would also challenge the assumption in the Ofgem paper that all reductions in standing charges must be added to the already inflated unit costs. The potential to reduce costs is not considered. We believe there is scope to cut both standing charges and unit costs. Standing charges have become a dumping group for a wide range of costs, and each needs close interrogation. And the huge premium of Ofgem unit pricing versus tariffs like Octopus Tracker (based on DA wholesale market pricing) suggests these are inflated too. There is also the money from windfall taxes on inflated energy prices (EPL & EGL) which is not actually being used to reduce inflated prices! By combining these opportunities, it should be possible to remove standing charges without increasing average unit costs. This would mean a price cap reduction of c.£300, but a much bigger reduction in fuel poverty and energy starvation because the saving is focussed on those with lowest incomes and usage.

Our other concern is that the Ofgem paper also lacks a sense of urgency. Millions are in energy starvation, and we face a climate crisis. This is not the time to defend the status quo or suggest tweaks to a flawed system. Urgent and radical change is needed. We hope that Ofgem will be willing to collaborate with us and others to develop stronger solutions to the crises we face.

Finally Ofgem needs to take more responsibility for, and stronger leadership on, standing charges. The paper seeks to shift responsibility from Ofgem onto energy firms “there is no Ofgem standing charge”, saying that standing charges are optional, and that it’s energy firms that choose to charge them. We think this is disingenuous given that Ofgem announces quarterly standing charges and has loaded £billions more in fixed costs. We cannot rely on profit-maximising companies to protect the vulnerable energy customers harmed by standing charges - that is the duty of Ofgem. The time for wishful thinking is over. Action is needed.

We do not think that the suggested questions address the core issues, so that is our focus below, building on the points made above.

1. What harm do standing charges do to consumers?
2. How strong is the economic case for standing charges?
3. What is the environmental impact of standing charges?
4. Which standing charge costs could be cut?
5. How could standing charges be replaced e.g. by a rising block tariff?

1. What harm do standing charges do to consumers?

As the Ofgem analysis shows, standing charges are regressive. It’s hard to think of a system that would be more cruel, dangerous and unfair than forcing people without money to pay £300/year for no energy. We would never accept this with food. This would be considered inhumane and risk starvation. But energy starvation is dangerous too. No or very low heating and power causes suffering, sickness or death.

Standing charges hurt the lowest income households, with the smallest energy budgets, most. Millions of UK households have to survive on very low incomes. For example single adults on benefits would need 122% of their income to cover minimum basic energy and food costs. Many single pensioners struggle too. Both often live in flats and don’t even qualify for the Warm Home Discount and ECO4 schemes that they fund via standing charges. And millions not on benefits are deep in fuel poverty too - especially as they then often don’t qualify for other support. Many are struggling with cashflow and debt. Very little is left to pay for energy. Forcing them to pay £300 in standing charges before they get any is cruel and dangerous.

The maths of standing charges is brutal. Someone with a £600 energy budget is forced to spend 50% (£300) on standing charges, forcing them to halve their energy usage, go into debt or go without food. But for an affluent family using lots of energy it might be 10% or less. So standing charges increase energy inequality.

Energy Budget	£600	£1200	£1800	£2400	£3000
Standing charges	50%	25%	17%	13%	10%

High standing charges force millions to live in severe energy deprivation. Cutting their energy budget in half to £300 means they only then have a fifth of the average energy. This is dangerously low - cold homes are not just uncomfortable they can cause serious illness such as hypothermia, respiratory and cardiovascular conditions. And the latest analysis from the End Fuel Poverty Coalition estimates deaths from cold homes at 4950 last winter. Millions are trying to survive with minimal heating - wearing coats and hats inside and huddling under blankets with water bottles. Many are unable to afford to have a hot shower, wash and dry clothes. Some can't even afford the most basic costs like their fridge. Standing charges make even the bare essentials expensive.

Example: Basic Fridge 300W = £30 electricity + £195 standing charge

It's even worse for those on prepayment meters. They can be cut off completely. This quarter last year, just amongst the smart prepay customers, there were a shocking 534,462 customers disconnected from gas at least once, and 269,351 for electricity. Double these numbers to factor in traditional meters. This is especially dangerous in winter. These customers should not be forced to pay standing charges.

It's a major concern that neither Ofgem nor Government seem to even track how many homes are dangerously cold, and how many people are suffering from energy deprivation and starvation. This should be an urgent priority, and would help drive focus on policies to reduce the suffering, illnesses and deaths.

But Ofgem does already know that millions of households are using very low levels of energy. For example electric only households on multi-rate meters have a TDCV of only 3,900 kWh for medium and 2,200 kWh for low, which is 73% and 76% less than dual fuel homes. The combination of high standing charges and high unit costs is having a brutal impact on many of the millions of people who live in these homes. They have the highest incidence of fuel poverty, are typically low income, older and more vulnerable. The CSE archetype analysis that Ofgem uses also identifies severe energy deprivation in groups G11, H12, H13.

Ofgem claims halving standing charges would make electric-only homes worse off because it would propose increasing their unit pricing even further. Clearly this group should neither be paying standing charges, nor higher unit prices. Instead of Ofgem using them as a dubious excuse to keep high standing charges, it should help them. For example Ofgem has allowed the Economy 7 night costs (used for their storage heaters and water tanks) to rise rapidly - for example the 91% increase announced by EDF just before Xmas for Jan 1. There is blatant price discrimination against this vulnerable group, and in favour of the more affluent group being offered much lower prices if they own an EV. Ofgem should stop this.

The electric-only group helps fund WHD and ECO4 through its high standing charges but is often excluded from the benefits. Most electric-only households cannot have the combination of ASHPs, insulation and solar panels provided by ECO4. This is because they are often in flats, have no private outside space, no private roof, no loft, no private walls, no pipes for radiators, no space for a giant tank. Some could have an air-to-air heat pump, but these are excluded. So instead of getting up to £40,000, many in the poorest group get zero and are stuck in long term energy deprivation.

2. How strong is the economic case for standing charges?

Standing charges are sometimes defended as a “necessary evil”. That they harm people on low incomes and low energy, but reflect the economic realities and cannot be avoided. Indeed, Ofgem claim they are economically efficient and reduce energy system costs. But even the economic arguments are flawed for a number of reasons.

First it's not true that standing charges are inevitable because there are big fixed costs in the energy system. There are huge fixed costs in the food system, but there is no food standing charge. In fact, most industries have big fixed costs but few charge an upfront fee. The industry examples Ofgem chose are the exceptions not the rule.

The next point is that Ofgem has let standing charges become a dumping ground for a whole range of costs beyond the basic role to pay for fixed energy infrastructure costs. In fact network costs now only form 36% of standing charges! £billions more have been loaded on to pay for bloated energy firm overheads delivering poor customer service, the £billions lost due to weak regulation of irresponsible energy firms (SoLR), and the shambolic smart meter rollout. This is not economic efficiency at work, it is rewards for inefficiency and incompetence.

But even the 36% of core fixed network costs are not as fixed as it is claimed. In fact, a growing amount will be spent on increasing the capacity of the electricity network due to higher expected consumption. So consumption levels do matter. High consumption means more expensive upgrades. Whereas low consumers are actually saving us all lots of money. This further weakens the case for a fixed standing charge that penalises low consumers.

It is also worrying that some costs of “Energy Intensive Industries” might be loaded onto low income, low usage and vulnerable consumers via the standing charge. This raises a wider question about cost allocation and pricing differences between domestic and industrial/commercial.

The economic case for standing charges gets even weaker when we consider total energy costs. Standing charges mean that average unit costs fall as consumption increases. This might make sense in industries where unit cost falls with scale. But with electricity generation the opposite is the case. Low consumption levels allow us to use cheaper (and greener) electricity generation. High consumption levels force us to use more expensive (and more polluting) electricity generation. Even worse, due to the marginal pricing system, these more expensive sources drive up the prices paid to all generators. This means high consumption drives costs up rapidly. So standing charges which penalise low consumption and subsidise high consumption is the opposite of electricity generation costs. This is another reason why a rising block tariff should be introduced now. It better matches our current economic reality - that increased consumption increases both network and generation costs significantly. So our pricing model needs to reflect that. The current pricing system is upside down.

3. What is the environmental impact of standing charges?

It is surprising given Ofgem's new net zero duty that this dimension is not given greater consideration in the paper. An energy pricing system that punishes low consumption in order to subsidise high consumption is bad for the environment. This is especially harmful when high consumption means increasing electricity production from more polluting sources like gas, and when it requires increased imports of LNG from distant countries.

Even worse, standing charges are twice as high on electricity as gas - even though we are trying to move everyone off gas onto electric heating. The contradiction gets even worse when you factor in the 4x greater unit cost of electricity too.

At least the ECO4 scheme, funded by standing charges, does in theory reduce carbon by targeting larger energy inefficient homes. However in practice the delivery has been very poor, with many rogue operators doing a poor job and undermining both the energy saving and consumer confidence in the green transition. This needs fixing as an urgent priority. Including air-to-air pumps in these schemes would help some of those in flats get a 4x efficiency improvement.

Environmental considerations add additional support for a rising block tariff replacing standing charges. It would incentivise energy efficiency instead of undermining it.

4. Which standing charge costs could be cut?

Standing charges have become a convenient dumping ground for a wide range of costs. There is very little consideration in the Ofgem paper of which of these could be cut, and which should not fall on consumer bills, especially vulnerable ones. This is a huge omission. There should be a forensic review of all components of standing charges, with a review to reduce or re-allocate them.

People are shocked to learn about the £billions of operating costs that are built into standing charges. Especially since energy retailers are basically middlemen who generate bills, and often get those bills wrong! Most of them are big wasteful businesses with poor customer service and bloated executive pay. Some CEOs even admit their huge pay is unjustifiable and the price cap is too high. Ofgem has been excessively generous to these businesses, at the expense of consumers. Worst still, marketing, advertising and sponsorship costs are also part of standing charges - paid for by those in energy starvation. Ofgem needs to remove the waste and excesses from the operating cost allowances.

Smart metering costs have also been excessive and the rollout a complete shambles which low income consumers should not be forced to pay for. Also the people who benefit most from smart meters are those with high energy consumption that can get cheap tariffs like Agile, Tracker and EVs. So forcing low users to pick up the bloated implementation bill is unfair.

Ofgem loading SoLR costs onto standing charges was controversial, especially given that poor planning and regulation had contributed to this expensive mess. It is hard to justify low income consumers being forced to pick up the bill. Especially those consumers that never benefited from their unrealistically low prices. A bit like forcing Aldi customers to pay for the demise of some random pound stores they never visited. Whilst these costs are now falling, they have caused significant suffering to the most vulnerable and such a scheme should never be repeated.

Policy costs are another problematic component of standing charges. We have already explained that both the Warm Home Discount Schemes and ECO4 are failing to support many of the people in energy starvation, but who are forced to pay for it. This cannot continue. There are also legacy policy costs which again should not be dumped on standing charges. There are also suggestions that new costs might be dumped on vulnerable consumers e.g. subsidies for energy intensive industries. This would be immoral.

5. How could standing charges be replaced with a rising block tariff?

We have already explained that a rising block tariff is an integral part of FPAs Energy For All proposal and the National Energy Guarantee from New Economics Foundation. There is a detailed explanation provided in these proposals. And a recommendation to replace standing charges with a rising block tariff was made in the recent ESNZ Committee report.

It is disappointing that Ofgem has not yet properly engaged with these proposals and recommendations. Whilst Ofgem accepts the benefit it would provide to low users and energy efficiency, it highlights concerns about high users and electric only households. But electric only customers need not do worse, in fact it can be the opposite depending on the tier design for their tariff.

The regressive nature of the current system is easy to see:

Annual Electricity	Unit cost	Standing charge	% markup	Cost/unit
1000 kWh	£270	£186	69%	45.6p
3000 kWh	£810	£186	23%	33.2p
6000 kWh	£1620	£186	11%	30.1p

A rising block tariff would reverse this, helping those on lower incomes and energy budgets and reducing energy starvation and inequality. Also better aligning with industry economics and environmental impacts.

Tier design can be adjusted. Initial modelling for the National Energy Guarantee showed the impact of providing a free initial tier of energy rather than removing standing charges. Whilst both approaches have a lot of similar advantages, the free energy allocation which has two advantages:

- The same essential energy allocation is provided regardless of price fluctuations.
- The energy allocation can be adjusted for needs e.g. disabilities.

The varying costs of the free allocation are offset by windfall taxes which increase during price spikes - providing automatic dampening of market volatility.

FPA's Energy For All proposal combines the zero standing charge and free essential energy. However a RBT with a zero standing charge but no free energy allocation would still be a good step forward and the two options should be considered and modelled as part of this review. Tiers can be optimised once the forensic review of existing standing charge components have been completed - all savings delivering lower price tiers.

In the National Energy Guarantee, protection for low income but high usage groups due to inefficient housing has also been modelled. This achieves a very high success rate. Rather than subsidising inefficient housing long term, phased protection is provided with accelerated retrofit support.

A key point that Ofgem completely misses in the paper is how a rising block tariff aligns with the economics of electricity given its marginal pricing model. Low consumption levels allow us to use lower cost sources. High consumption levels force us to use high cost sources and face high costs to increase network capacity. Currently it's the people with high usage that not only have a lower standing charges per unit but also often enjoy the lowest unit costs, for example those with EVs and those on tracker and agile tariffs who also tend to be more affluent,

How do we develop the right solution without unnecessary delay?

Discussion and analysis is needed to design and agree the best solution that deals with the human, economic and environmental issues. However it is also important that fast progress is made. The negative impacts of the current system are significant and we need to guard against analysis paralysis and status quo bias. Change is essential and long overdue and we are committed to collaborating with Ofgem and others to help develop the good solutions quickly.

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