

**FUEL  
POVERTY  
ACTION**



**ENERGY  
FOR ALL**

## **Fuel Poverty Action Response To Standing Charges Options**

Sept 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 means more expensive and damaging energy sources, causing higher bills and carbon. So our energy pricing system is upside down, and needs urgent reform.

### **Ofgem's Approach to Standing Charges Reform**

We are horrified that despite the huge public support for getting rid of standing charges, Ofgem has chosen to dismiss this option completely. Surveys of the public show overwhelming support for getting rid of standing charges, e.g. 94% of the 45,887 surveyed by Organise. We are overwhelmed by the anger of tens of thousands of people complaining about Ofgem's proposal to keep standing charges and only make small changes.

The reasons Ofgem has given to dismiss bigger changes are not convincing, and there is a lack of real analysis to support Ofgem's conclusions.

1. The assumption made that 100% of standing charges must be added to unit costs. In reality some of these costs could be reduced (eg excess supplier operating costs) and others reallocated (eg policy costs). Given the serious consumer harms that standing charges cause, pushing for such changes should be a key priority for Ofgem given its statutory duty.
2. Even in the Ofgem scenario of zero savings and zero shifting of policy costs and taxes, the increased bills and potential debt of high users is seen as more important than the energy starvation of low users which causes widespread illnesses and thousands of deaths each winter. Debts seem to matter to Ofgem more than deaths.

Financial resilience for suppliers is put above human survival. Ofgem have not attributed any value to the human lives lost as a result of the current system, nor factored in the £billions of NHS and care costs resulting from the people being unable to turn on their heating.

3. Ofgem's conclusion that removing standing charges would have a net negative impact on decarbonisation is not backed up by any real analysis. The conclusion that a pricing system which punishes low consumption and encourages high consumption is better for the environment is hard to believe. If all customers were low consumers, there would be immediate dramatic reductions in carbon and costs as we would no longer need to use expensive and dirty gas fired power stations, and would save £billions in reduced network upgrades and new generation investment. And Ofgem's conclusion that standing charges should continue to be used to subsidise the energy waste from inefficient housing is perverse, especially given that low users in small homes are already subsidising larger homes with high usage through both Eco4 and Warm Homes Discount. Making these schemes work better is clearly a priority, rather than distorting pricing to try to cover up their failings.
4. The assumption that Ofgem is making that the future costs of increased electricity capacity should be allocated as standing charges and not based on consumption is also very worrying. This would further punish the low users who are saving us all £billions in costs and tonnes of carbon.

Ofgem's proposed bill reduction range of -£4 to -£19 per household per year for low income low use households is clearly not enough to address the serious harms being caused. That's an average of £1 per month saving!

### **Heating or Eating?**

This has become a real decision for many low income households. The difference with food is there is no standing charge. We do not force those with empty baskets to pay a fixed sum to subsidise those with full baskets. This would cause starvation, just like the energy starvation we see because of standing charges.

### **Safeguards for vulnerable groups**

We do not think that subsidising all high energy users at the expense of low energy users is a fair and efficient way to support those with special needs. These needs will vary dramatically based on the equipment needed, eg a dialysis machine has very high energy usage and this cost should be covered by the NHS, as it is in some areas. The action should be to give the right support based on needs, rather than using these groups as justification for high standing charges. They are suffering from these high standing charges too.

### **Increasing Tariff Diversity**

This is a dangerous distraction. There are already “no standing charge” tariffs but they simply add the standing charge to the first one or two units. This confuses and misleads customers rather than offering a real saving to low users. The last thing we need is more consumer confusion and for struggling customers to be misled.

### **Smoothing Spend For Prepayment Customers**

The combination of high standing charges that often accumulate over summer, lumpy heating costs and the disconnection functionality of standing charges is dangerous and leads to over a million households being cut off every year. This is why they should be removed or the disconnection function deactivated to protect people.

### **Multi-rate meters and double-charging**

It is clearly shocking that some customers are being charged two standing charges and Ofgem must take immediate action to stop this exploitation, penalise the offenders and compensate those affected.

### **Policy Costs**

Larger homes and higher users benefit most from schemes like Eco4, Warm Homes Discount and FIT so this is another reason why standing charges are unfair as low income people in flats subsidise those in bigger homes. These costs should be covered from energy firm profits, or if not possible shifted to taxation or unit costs.

### **A Better Solution - Energy For All**

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 the current standing charge system where £300 is charged for zero energy, which harms those with the lowest incomes and usage.

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.

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.

The maths of standing charges is brutal. Someone with a £600 energy budget is forced to spend over 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 + £200 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.

### **Standing Charges Have Become an Ofgem Dumping Ground**

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.

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. There are also legacy policy costs which again should not be dumped on standing charges.

### **Standing Charges Pay for Obscene Energy Retailer Costs, Salaries and Bonuses**

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.

### **Better aligning retail energy pricing with wholesale energy pricing**

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 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.

### **The Urgent Need For Radical Change**

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.

#### **Contact Information:**

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