

**FUEL
POVERTY
ACTION**



**ENERGY
FOR ALL**

Fuel Poverty Action Response to Ofgem on Operating Costs

June 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. We have developed a powerful solution that delivers a fairer, greener and more affordable energy system called [Energy For All](#). This has gained widespread support from over 100 other organisations and over [660,000 petition signatures](#).

High Operating Costs Are Causing Consumer Harm

The high operating costs of energy retailers are contributing to the unaffordability of energy for millions of us, which is causing severe harm including illness and deaths. Energy retailer operating costs add over £6 billion to energy prices and deliver limited added value, high volumes of billing errors and poor customer service. It is therefore critical that Ofgem drives down operating cost allowances and deals with poor retailer performance more forcefully, including removing licences from the worst performing companies. It is horrifying that the bosses of energy retailers with billing errors and poor customer service are getting huge salary packages.

A key area of operational inefficiency is the high number of basic billing errors. This not only causes huge issues for customers, it also drives up operating costs especially as many retailers are also poor at correcting errors. Customers can spend months or even years battling with retailers to get the right bills. The huge collective cost of this widespread dysfunction gets passed onto long suffering customers via inflated operating costs. Accurate billing should be very easy with smart meters, but huge errors are also occurring with these. There have also been big billing errors when customers were moved from failed suppliers, further evidence of the cost and confusion caused by giving operating licenses to poorly run businesses. Many energy retailers struggle with IT systems, most recently shown with the botched IT switchover by British Gas. Ofgem should not allow such incompetence to continue.

Loading Costs Onto Standing Charges is Especially Harmful

Standing charges are cruel and dangerous because they mean millions of people do not have money left for heat, hot water and power. Standing charges are especially high for electricity at c.£220. The operating costs loaded onto standing charges compound the unfair and uneconomic allocation of network and wholesale costs. Network costs are wrongly allocated as fixed, despite the huge costs of increasing network capacity to meet higher demand. Wholesale electricity costs are also not seen as rising with consumption levels, in contrast to the reality of high demand prices rising rapidly with high demand. Whilst this review only covers operating costs, it is critical that the temptation to load even more costs onto standing charges is resisted.

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