Ofgem's review of standing charges on energy bills and ESNZ inquiry into energy bills – member briefing and request for input

Background and rationale

At the Chartered Institute of Housing (CIH), we're is asking for member feedback to inform our response to two new investigations set up by Ofgem, the energy regulator, and the government's Energy Security and Net Zero (ESNZ) Committee.

The energy regulator Ofgem has launched a review of the standing charge component of domestic energy bills. Standing charges are the fixed component of gas and electricity bills that are paid per day by energy customers, irrespective of how much energy they use. They have increased significantly in the last two years, especially on electricity bills, which have more than doubled from £86 per year to £186 per year on average between 2021 and 2023.

Because standing charges are fixed (i.e. they are not based on energy usage), they make up a disproportionately large part of the energy bill for people who use less energy. This means that people living on lower incomes or using prepayment meters are hit especially hard, and can find themselves accruing standing charge debt despite using very little or no energy at all. We know that social housing residents are more likely to fall into one or both of these groups, and will make up a significant proportion of the 6.4 million (12 per cent) UK adults that are behind on their energy bills.

The ESNZ committee's inquiry is investigating domestic energy bills, specifically the process of billing customers for their gas and electricity and whether the rules on charging for energy are fair for all. The committee has released a call for evidence, asking for input on standing charges as well as other topics, such as the fairness of prepayment meters and how a social tariff, advocated for by CIH, could help to address inequities in the energy market.

Request for input

CIH intends to respond to both Ofgem's call for input and the ESNZ committee inquiry and therefore, we welcome views from members on any aspect of either investigation to help inform our response. We have set out the specific list of questions being asked by each investigation at the end of this document, but would particularly welcome input from on the following four points.

Q1. How have social housing residents been impacted by increases in standing charges since 2021?

Your response could take the form of individual cases or analyses of resident energy affordability. We would like to help Ofgem and the ESNZ committee understand how standing charge increases are impacting residents at a time of acute financial pressures due to the wider cost of living crisis. Beyond social renters, we also welcome any input members may have on the impacts of increasing standing charges on households in the UK more generally.

The evidence presented in Ofgem's discussion paper shows that customers on lower household incomes, and/or using prepayment meters, are more likely to be detrimentally affected by increasing standing charges. Households on lower incomes are more likely to cut back on their energy use to save money, but are still required to pay a fixed amount per day through the standing charge. Furthermore, prepayment meter users are required to pay the standing charge even if they have no money on their gas and/or electricity meters, which inevitably leads to the accrual of debt.

The English Housing Survey consistently tells us that households in the social rented sector in England have an average household income below the national median. The National Housing Federation also states that 41 per cent of all social renters in England use a prepayment meter, nearly one million households, and this proportion is higher in Wales and Scotland, at approximately half and 43 per cent respectively. It is therefore clear that social housing residents are more likely to be experiencing the detrimental impacts of standing charge increases, but we do not have much specific evidence that demonstrates this.

Q2. What action do you think Ofgem and government should take to reduce the negative impact of standing charge increases, especially but not exclusively for social housing residents and prepayment meter customers?

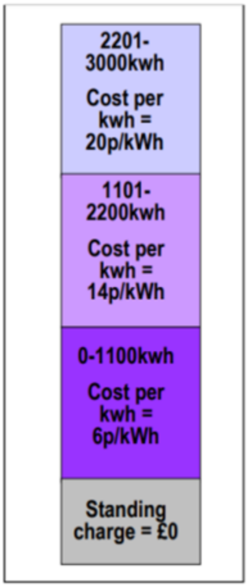
There are no easy answers to the question of how to amend the standing charge, so it is fairer for lower-income households and prepayment meter users. We welcome your view on these proposals, and the detail provided on them in Ofgem's discussion paper.

In their discussion paper, Ofgem set out some of the options for minimising the negative impact of standing charges. One of the options they consider is abolishing the standing charge altogether. This would not automatically lead to a reduction in energy bills; the cost would have to be recovered somehow, and it would almost certainly be added to the unit rate (i.e. added to the amount of gas and electricity people use on a per unit basis).

If this was to occur, Ofgem state that among households with the lowest incomes, whilst five million households would benefit from a measure to shift electricity costs from standing to volumetric charges, one million would lose out. Those million households that would lose out would include some vulnerable people with high energy needs, such as those reliant on essential medical equipment or electric heating to keep warm, and/or those with poorly insulated homes.

Another option discussed by Ofgem is the 'rising block tariff'. This would be offered with no standing charge, and people would be charged progressively more the more energy they used. For example, the first 1,100 units consumed each month (measured in kilowatt-hours or kWh) could be charged at 6p per unit, with usage charged above this charged at successively higher unit rates (see image to the right, taken from Ofgem's paper). This would benefit households that use less energy while incentivising medium- and higher-income households to cut down on their energy use. However, it could also detrimentally affect people with health-related needs for energy, such as those reliant on essential medical equipment.

Figure 6: An example of a rising block tariff



Q3. Is it right to expect those in more remote areas of the country to pay higher amounts in standing charges?

Share with us your thoughts as to whether standing charges should apply equally across the UK, or if there is a justification for having some people pay slightly higher standing charges depending on where they live.

Standing charges are not currently paid exactly equally by everyone across the UK. There are slight regional differences in standing charge rates that means some households pay more than others depending on where they live. For example, households in less densely populated regions, especially Scotland, Wales, and parts of northern England, pay more because it costs the energy networks more to transport gas and electricity to their homes. This cost is added to the standing charge, inflating it in these regions.

This is important because fuel poverty rates differ geographically. For example, fuel poverty rates in rural Scotland (23 per cent) are slightly higher than in urban areas (19 per cent), but higher still in remote rural areas at 29 per cent. We are therefore interested in understanding member views on the fairness of standing charges being higher in geographical areas that may be more likely to have higher proportions of fuel poor households.

Q4. Should companies be allowed to provide cheaper bills to those who choose to pay by Direct Debit?

We welcome your views on whether people should be charged the same price for gas and electricity regardless of how they pay for their energy, or if there is a justification for prepayment and standard credit customers to pay more.

Currently, people pay different amounts for their energy dependent on their payment type. Direct Debit customers have far lower standing charges than customers who pay for their energy by prepayment meter and standing credit, and customers who pay by standard credit also pay higher unit rates. The exact amounts and differences are provided in the table below.

		Energy prices from January 2024			
		Electricity unit rate	Electricity standing charge	Gas unit rate	Gas standing charge
Payment type	Direct Debit	28.62p per kWh	53.35p per day	7.42p per kWh	29.60p per day
	Prepayment meter	28.17p per kWh	60.26p per day	7.24p per kWh	40.42p per day
	Standard credit	30.12p per kWh	60.01p per day	7.81p per kWh	34.97p per day

Q5. Are there any other comments or feedback you would like to provide on any aspect of Ofgem or the ESNZ committee's questions?

Aside from the four focused questions in this briefing, share your thoughts with us on any other aspect of Ofgem's review of standing charges or the ESNZ committee's inquiry into energy bills. Please see the specific lists of questions appended to this document.

Next steps

If you're a CIH member, please send through any evidence you have to Matthew Scott, policy and practice officer at CIH (matthew.scott@cih.org) by 15 January 2023.

The deadline for Ofgem's call for input is 19 January 2023.

The deadline for submissions to the ESNZ inquiry is 2 February 2024.

We will keep you updated and informed on developments and outcomes of both the call for input and inquiry as they progress,

Annex – Ofgem’s full list of discussion questions

Q1: What are the barriers to suppliers using the existing flexibility under the price cap?

Q2: Why are suppliers not innovating on standing charges for tariffs not covered by the price cap?

Q3: What changes could Ofgem make to improve provision for lower standing charges under the cap.?

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?

Q5: What are the reasons for regional variations in electricity standing charges?

Q6: Can we learn from other sectors about how to improve suppliers’ tariff offering in the UK energy market?

Q7: Why do so few suppliers offer multi-tier or zero standing charge tariffs to their customers?

Q8: Why are zero standing charge tariffs no longer offered in the market, with the exceptions cited in this paper?

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

Q10: Why do no suppliers offer rising block tariff products at present? Would these products offer benefits to consumers?

Q11: How significant an impact do standing charges have on customers’ incentives to use energy efficiently? What evidence can you provide that this is the case?

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?

Q14: What issues affecting standing charges in the non-domestic retail sector should we consider further?

Ofgem’s full discussion paper can be accessed here

Annex – ESNZ committee questions

Q1: What are the justifications for allowing or removing standing charges from energy bills?

Q2: Should companies be allowed to provide cheaper bills to those who choose to pay by direct debit?

Q3: Are pre-payment tariffs necessary to deter fraud and theft and, if so, are the rules in forcibly switching people to pre-payment properly policed?

Q4: Should there be greater use of discounts on energy for those who live closer to energy infrastructure?

Q5: Is it right to expect those in more remote areas of the country to pay higher amounts in standing charges?

Q6: How should a social tariff be implemented to address inequalities in billing?

The ESNZ committee inquiry page can be accessed here