Chartered Institute of Housing response to Ofgem's options paper on standing charge reform

Introduction and summary of our response

The Chartered Institute of Housing (CIH) is the professional body for people who work or have an interest in housing. We are a registered charity and not-for-profit organisation, and as holders of a royal charter, we have a duty to act in the interest of the general public as well as our individual members.

CIH continues to welcome the work that Ofgem is undertaking to review standing charges and domestic energy bills, as well as its wider work on debt and affordability in the energy market.[1] In our previous responses to Ofgem's calls for input, we have analysed in detail how issues of energy affordability are affecting the social housing sector and its residents, based on engagement with our membership. We are pleased to have the opportunity to contribute to the next stage of Ofgem's review of standing charges, and have consulted with CIH members and wider stakeholders in the health, housing, and energy sectors to inform our response.

A summary of our main points in response to the consultation is as follows:

- **We broadly agree with Ofgem's case for change,** particularly that it is not fair for domestic consumers with very low consumption levels to pay the same fixed costs as consumers with higher consumption levels.
- **The findings from Ofgem's call for input represents a significant public mandate for radical change on standing charges.** While we acknowledge that Ofgem is to some degree limited in the extent of standing charge reforms it can unilaterally introduce, we would encourage **Ofgem and government to work together to implement deeper reforms to the standing charge regime** that are reflective of the strength of stakeholder and public opinion.
- While we support in principle the reallocation of some costs from the standing charge to the unit rate, we cannot give a firm view on the preferred shift of operating costs from the standing charge to the unit rate without understanding Ofgem and government's plans for mitigating the shift for low-income, high-usage households, especially those with health-related needs for higher gas and electricity consumption. Consideration must be given to households that rely on higher indoor temperatures and using electrical technologies to maintain good health and wellbeing, such people with a medical dependency on electricity and groups such as partially sighted people.

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[1] CIH has responded separately to Ofgem's consultations on affordability and debt and involuntary prepayment meters, as well as to the initial call for input on standing charges.

- We are also concerned that Ofgem's analysis is reliant on receipt of disability benefit as a proxy for disability, which may exclude disabled people who are not claiming. Alongside proposals for mitigation measures, **we would encourage Ofgem to undertake a comprehensive impact analysis to evaluate the impact of the proposals on low-income households with health-related needs for higher energy consumption**.
- In view of these points, we recommend three next steps for the review:
    - In its final statutory consultation, **Ofgem should set out a more prescribed range of values (e.g. £20, £60, £100) alongside a clear analysis of mitigation measures**, how those mitigation measures will reduce the impact of the operating costs shift for low-income, high-usage households, and a full impact analysis. This will enable Ofgem's partners and stakeholders to take a firm and final view on the preferred course of action.
    - Ofgem should in parallel **proceed with no-regrets options to provide immediate relief for prepayment metered households**, who are most negatively affected by high standing charges. We are supportive of options proposed by National Energy Action that could achieve this.
    - **Ofgem and government should work together to develop stronger reforms to the standing charge regime** that go beyond the shift of operating costs from the standing charge to the unit rate. We note again the strength of public opinion, as evidenced in the responses to Ofgem's call for input, especially the finding that two thirds of respondents favoured the abolition of standing charges altogether.
- **We agree with Ofgem's proposal to undertake a wider and deeper review of the allocation of network and policy costs.** Issues relating to the higher level of standing charges and the wider unaffordability of energy in remote and rural areas of Great Britain should be one key focus of this review. A second key focus should be ensuring that it contributes to a just and equitable transition to net zero by considering:
    - How the design of tariff structures and cost allocations can incentivise the reduction of energy consumption among high-income, high-usage households.
    - The possible unintended distributional outcomes of any net zero orientated reforms, both for different groups of consumer and different kinds of home.
    - The feasibility of moving some legacy policy costs, especially the Renewables Obligation (RO) and the Feed In Tariff (FIT), off the electricity bill and onto general taxation.

In what follows, we have provided responses to the consultation questions to which we can give an informed and evidence based response. We would welcome the opportunity to discuss any of our submission with Ofgem if it would be helpful.

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Q1. Do you have any views on our case for change?

We broadly agree with Ofgem's case for change. In our initial submission to the call for input, we outlined a view that it is unfair for domestic consumers with very low consumption levels to pay the same fixed costs as consumers with higher consumption levels. Ideally, the fixed costs paid by consumers should broadly reflect the amount of demand they place on the gas and electricity networks.

We also agree with the conclusion that fixed system costs are likely to continue to grow, and that standing charges will likely follow the same trajectory under the current system. The investment required in our electricity network to reach net zero is significant. However, the Resolution Foundation have convincingly shown that if some or all of the costs of this investment are recovered through standing charges, as is currently the case for transmission network charges, this would constitute a greater share of budgets for lower-income households. Put differently, there is a significant possibility that electricity network investment requirements translate into higher standing charges, which under the current model will be regressive and harm lower-income households. We also have a more long-term concern that the costs of maintaining or potentially decommissioning the gas networks will fall more heavily on lower-income households if these costs are added to standing charges, especially if more affluent households are removed from the gas network in greater numbers through their early adoption of electric heating.

Lastly, we would emphasise that Ofgem's summary of individual responses to the call for input constitutes a significant public mandate for radical reforms to standing charges. While we acknowledge that Ofgem is to some degree limited in the extent of standing charge reforms it can unilaterally introduce, we would encourage Ofgem and government to work together to implement deeper reforms to the standing charge regime that are reflective of the strength of stakeholder and public opinion.

Q2. What are your views on the range (£20-£100) of operating costs we are considering shifting from standing charges to unit rates? Should it be higher? Within this range, is there a value you would favour and why?

In principle, CIH supports the reallocation of operating costs from the standing charge to the unit rate. We note Ofgem's analysis that there would be an annual net positive income-weighted saving to customers of c.£140 million for the central £60 scenario, and we welcome the detail included in the scenario and archetype analyses. In our initial submission to the call for input, we outlined how energy affordability issues are affecting social housing residents, and note that a significant number of social rented households – approximately 1,750,000 households on the lowest incomes, especially those with prepayment meters – would stand to benefit the most from the proposed changes.

Despite this, we cannot offer a firm view on the proposed range of operating costs without a clearer indication of how this will be mitigated. We recognise that this is an ongoing conversation between Ofgem and government, and that Ofgem is currently reviewing its call for input on affordability and debt. However, we are concerned by Ofgem's analysis (in 3.29. and 3.30.) that there is a subgroup of unknown size who are low-income, and use more than 50 per cent higher than typical consumption values. We are also concerned that many of these households may have disabilities or long-term illnesses, a medical dependency on energy, or broader health-related needs for gas and electricity consumption.

As noted in analysis produced by the disability charity Scope, energy bills are an important driver of affordability and cost of living challenges for disabled people. Their analysis shows that approximately eight per cent of the average disabled household's income is spent on energy bills, compared to a figure of six per cent for non-disabled households. Common definitions of a 'satisfactory heating regime' state that households with older or disabled people should be heated to 23°C in the living room and 18°C in other rooms for 16 hours in a 24 hour period, which costs more. Households with terminal illnesses or a medical dependency on electrical equipment face even higher costs, with one study noting that the cost of running a home dialysis machine is up to £1,918 per year. We therefore think that any standing charge reforms must properly mitigate any increases in unit costs for low-income, high-usage households. Furthermore, we have concerns that Ofgem's use of disability benefits as a proxy for disabled households risks undercounting the number of disabled people affected by the proposals; research by Scope, for example, has found that only 23.5 per cent of working age people who have a disability under the 2010 Equality Act claim Personal Independence Payment (PIP) or Disability Living Allowance (DLA).[2]

In addition, households who are medically dependent on electricity (in the way described, for example, by the do not install category in Ofgem's involuntary prepayment code of conduct) should not be the sole focus of mitigation, and we would stress the importance of considering mitigation efforts for other households with higher health-related needs for gas and electricity consumption. For example, research shows that blind and partially sighted people are often reliant on different electrical technologies to work and remain independent, such as tablets, smart speakers, electronic magnifiers, and document readers. The presence of adequate and consistent lighting is also often vital for partially sighted people, and CIH have previously made the point that turning off lights due to unaffordable energy costs or self-disconnection from electricity supply is a significant risk of fall and trip hazards in the home. Similarly, a wide range of households have medical or health-related requirements for electricity consumption in other ways; the charity Mencap, for example, has highlighted that the mobility and hygiene needs of people with a learning disability can require increased consumption of electricity (e.g. to use of washing machines more frequently than average). In all of these cases, higher electricity consumption is medically required for the household to maintain good health and wellbeing, and live and work in a dignified way. Moreover, as we set out in our response to Ofgem's debt and affordability review, the inadequacy of the welfare system and the way the system negatively affects households with long-term illnesses and/or disabilities mean these households are often on very low-incomes.

[2] Unpublished analysis shared with us by Scope.

In this context, we cannot give a firm view on the preferred shift of operating costs from the standing charge to the unit rate without understanding Ofgem's longer-term plans for affordability, or detail on Ofgem and government's plans for mitigating the shift for low-income, high-usage households, especially those with health-related needs for higher gas and electricity consumption. Our preferred value is in other words dependent on the level of mitigation Ofgem and government can provide.

We therefore recommend the following three next steps for Ofgem's review of standing charges:

- Ofgem should set out a more prescribed range of values (e.g. £20, £60, £100) alongside a clear analysis of mitigation measures, how those mitigation measures will reduce the impact of the operating costs shift for low-income, high-usage households, and a full impact analysis. This will enable Ofgem's partners and stakeholders to take a firm and final view on the preferred course of action.
- Ofgem should in parallel proceed with no-regrets options to provide relief for prepayment metered households, who are most negatively affected by high standing charges. We would support Ofgem's suggested mitigation in 4.42. of the consultation, as well as one or both of the following two options shared with us by National Energy Action:
    - Moving standing charges to the same meter register on which debt with the energy supplier is located, which would mean a household only has to repay their weekly repayment rate to reconnect their supply after self-disconnection.
    - Ofgem to mandate a maximum weekly amount that can be charged for standing charge debt. This would function as a second weekly repayment rate, which accumulates in addition to the weekly repayment rate for debt.
- Ofgem and government should work together to develop stronger reforms to the standing charge regime that go beyond the shift of operating costs from the standing charge to the unit rate. We note again the strength of public opinion, as evidenced in the responses to Ofgem's call for input, especially the finding that two thirds of respondents favoured the abolition of standing charges altogether.

In terms of mitigations, we would continue to support Ofgem and government exploring all of the following possible interventions. We do not feel these options are necessarily mutually exclusive.

- Introducing standing charge freezes, caps, ceilings, or exemptions for households with health-related needs for additional gas and electricity consumption.
- Implementing standing charge tariff bandings for domestic users based on consumption thresholds.
- Adding disability benefits to eligibility for Core Group 2 of the Warm Home Discount, and increasing the value of the rebate to be more reflective of the average fuel poverty gap in England (£417).

- Consulting on and introducing a social tariff in the energy market, which we continue to support as the best option for tackling fuel poverty and energy unaffordability for low-income and vulnerable households.

Q5. Could mandating suppliers to have at least one low or no standing charge tariff available to customers help promote competition in this area of the market?

We cannot provide an informed view on whether this would help promote competition in the market. However, we would note the finding that two thirds of individual respondents to Ofgem's call for input favoured the removal of standing charges completely. This is a significant public mandate to explore this further, and we therefore support Ofgem's intention to examine market-based options for low- or no-standing charge tariffs.

Q8. What are the key considerations we should take into account in developing options for smoothing spend for prepayment meter customers?

Many households with health-related needs for higher gas and electricity consumption, such as those described in our response to Q2, are required to access gas and especially electricity all-year round. In relation to Ofgem's suggestion in 4.39. of the consultation document that summer standing charges could be higher to smooth prepayment spend, we would need to understand the potential impact this might have on these households. As part of this, we would also need to understand any variation in gas and electricity consumption between summer and winter months among these households.

We are aware that due to Ofgem's programme of work on involuntary prepayment that there could also be a fewer number of households with health-related needs for higher gas and electricity consumption living in homes with prepayment meters. However, we would encourage Ofgem to explore this further. In social housing, approximately 40 to 45 per cent of homes are fitted with a prepayment meter. Latest government data shows that 22.7 per cent of social housing allocations in 2022/23 were made on grounds of medical welfare, which can include a disability. Prior to moving into a social home, an affordability check must be carried out to ensure the prospective resident can afford the costs of living in that home. Despite this, we are not aware of any evidence that affordability checks routinely assess whether the pre-existing payment type is suitable for the prospective resident.[3] Affordability checks are based on income and expenditure, and payment type is unlikely to be seen as a suitable proxy for ability to pay. It is therefore possible that people with health-related needs for higher electricity consumption are being allocated social housing with a prepayment meter. We acknowledge that responsibility largely sits with the supplier for establishing whether a prepayment meter is appropriate for a new tenant, but this may not always occur appropriately, or may take time.

[3] For example, one written policy determines "*if the applicant can afford the tenancy based on their current income and out-goings, existing debt, the family size and the size of property they have applied for*." Payment type is not mentioned.

While the above example is primarily an issue for social housing allocations policy, we would encourage Ofgem to consider that there are other ways that people with health-related needs for higher gas and electricity consumption may be being placed onto prepayment other than through involuntary installation. The number of households in this category is relevant to developing options for smoothing spend because, as noted above, these households may be required to spend near-equivalent amounts on electricity, and to a lesser extent gas, in summer and winter.

Q9. Do you have any views on our considerations for the allocation of network and policy costs?

We agree that while a reallocation of operating costs from standing charges to unit rates, with appropriate mitigations, is welcome, broader reforms are required to stop standing charges becoming even more unaffordable for lower-income households. We welcome Ofgem's intention to undertake a broader review of the allocation of network and policy costs, and feel that broadly Ofgem are identifying the appropriate considerations. We would like to add some views and evidence around the following areas.

Geography and remote rural areas

CIH supports assessing the regional and spatial inequalities in the allocation of network and policy costs as part of the broader review. Specifically, we think that the review should examine the causes and impacts of higher standing charges in remote areas of Great Britain, how these higher charges contribute to energy (in)affordability and fuel poverty in these areas, and what action can be taken to reduce this.

It is clear from prior evidence that the higher standing charges paid by households in remote areas of Great Britain is one part of a much broader issue with energy affordability in these areas. This is reflected in national fuel poverty statistics across the nations. For example, in Scotland, the rate of fuel poverty for remote rural households (47 per cent) was higher than for all other areas in 2022. Although statistics are outdated in Northern Ireland, in 2016 34 per cent of households defined as living in small villages, hamlets, or open country areas were in fuel poverty, compared to the national figure of 22 per cent. Remoteness is not defined in the latest fuel poverty data for England and Wales, but official estimates in both nations show also higher levels of fuel poverty in rural areas than urban areas. This evidence suggests that rurality and specifically remoteness are an issue that requires attention in Ofgem's review.

The reasons for energy affordability issues in remote areas are complex, but previous research suggested at least six characteristics of remote areas that shape their access to adequate energy services.[4] These are low household incomes; limited connectivity,

[4] For a summary see the analysis in in Scott, M. et al (2022) Climate justice, social policy and the transition to net zero in the UK. In Jolly, A. et al (2022) *Social Policy Review 34: Analysis and Debate in Social Policy*, 2022.

especially in relation to travel and transport poverty; limited access to other essential services (e.g. banking); older and harder-to-treat housing; socio-demographics, especially a higher proportion of older households, who need to spend more on energy to stay warm and well at home; and the greater likelihood of colder and more extreme weather conditions, especially in Scotland. Notably, research undertaken for the Scottish Government in 2021 identified additional minimum living costs for households in remote rural Scotland that typically add 15-30 per cent to a household budget, compared to urban areas of the UK. Remote areas are also more dependent on unregulated fuels for heat and power (e.g. LPG, oil, or diesel generators), which can be more expensive and more difficult to access. This means that people in remote areas tend to live in more energy inefficient homes, experience colder and more challenging weather conditions, have higher living costs more generally, but have lower household incomes, making it especially difficult for them to afford their required energy costs.

In our view, this broader geographical inequality in access to energy services justifies action to reduce the standing charge premium in remote areas. Together, government and Ofgem should work together to assess options for equalising standing charges across Great Britain.

Net zero and a just transition

There are a range of complex considerations associated with net zero, and we agree that the reforms need to incentivise the adoption of low-carbon technology and energy efficiency measures. It is clear that higher fixed standing charges disincentivise the adoption of energy efficiency measures because they ensure that installing (e.g.) insulation measures have a smaller impact on the overall cost of the energy bill. However, a crucial question for the review must be *who* is incentivised and *how*, and ensuring that any proposals can contribute to a just and equitable transition to net zero than enables lower-income households to benefit from the undoubted benefits of clean heat and power. There are at least three areas worthy of consideration here.

Firstly, we feel the review should examine how to use tariff structures and cost allocation to incentivise lower energy consumption among high-income, high-usage households. The current structure of energy bills, with fixed standing charges and unit rates priced in kWh, helps to incentivise overconsumption of energy among higher-income households in a way that is detrimental to our climate targets. We noted in our initial reply to the call for input that the poorest fifth of households contribute 16 per cent of all building emissions, while the wealthiest fifth is responsible for 25 per cent of building emissions, with little incentive to reduce their energy use because they can afford the higher expenditure. In addition, research suggests that meeting carbon budgets aligned with net zero by 2050 without substantial reductions in household energy demand is extremely difficult, and prohibitively expensive. We would welcome further consideration of how rising block tariffs, social tariffs, or other approaches to cost allocation based on cross-subsidisation could a) more fairly allocate the fixed costs that are currently attached to standing charges, and b) have the secondary benefit of reducing overconsumption among affluent households.

Secondly, the review should consider the possible unintended distributional outcomes of any net-zero orientated reforms, both for different groups of consumer and different kinds of home. For example, one CIH member who we consulted with to inform our response to this consultation highlighted possible unintended outcomes of reform related to solar PV. Despite increasing installations of solar PV in the social housing sector in recent years, academic research shows that solar PV installations are far more prevalent in affluent areas and households. Other research suggests installations are also more prevalent in areas of lower housing density, with more detached housing. On the other hand, high rise flats – which comprise 4 per cent of social rented homes compared to less than 1 per cent of owner-occupied homes – are generally unsuitable for solar PV and complimentary technologies such as battery storage, because of space issues and fire safety risks. Statistics consistently show that social rented households have the lowest income of all tenures, as we described in our initial reply to the call for input.

Section 5.10. of Ofgem's consultation recognises that households with solar PV generally benefit from lower standing charges, because they make the household less reliant on paying to access units of electricity from the grid. It could therefore be reasonably argued that lowering standing charges could encourage solar PV uptake, which is essential for meeting net zero. However, the evidence above suggests that without broader policy change, such a change risks locking in the benefits of solar PV to affluent, higher-income households in the owner-occupied sector, essentially excluding lower-income social rented households in high rise blocks from the same benefits. We acknowledge that this is a very specific example, but it serves as an indication of the kinds of unintended consequences that may occur if a review of cost allocation focuses only on net zero, and *not* the distributional outcomes of any net zero-orientated reforms for different groups of consumers and different kinds of home.

Thirdly and finally, the review should consider legacy policy costs currently on the electricity bill, their role in our transition to net zero, and what is the fairest way to recover these costs. This is especially important for the Renewables Obligation (RO) and the Feed in Tariff (FIT). These levies make up a significant proportion of the overall levy on electricity bills, and any review should examine options for removing them, especially to general taxation. On the other hand, the Warm Home Discount (WHD) and Energy Company Obligation (ECO) are policies that directly benefit low-income and vulnerable households, and the levies for these could therefore be retained in their current form on gas and electricity bills.