

MoneySavingExpert

Response to Ofgem Call for Input: Operating Cost Allowances Review

Overview

MoneySavingExpert (MSE) welcomes the opportunity to respond to Ofgem’s call for input on the Operating Cost Allowances Review.

Our submission will focus primarily on the regressive allocation of costs between the standing charge and unit rate. As our founder and Chair Martin Lewis has raised publicly and privately, the high standing charge is a moral hazard which means low users are not rewarded for cutting their bills, as there is a strict floor of minimum payment you can’t go below. This means people are currently – and crucially, unavoidably – spending a few hundred pounds a year just for the facility of having gas and electricity, before having actually used any.

Because of this, those who are desperate and trying to cut back their energy usage gain little benefit from it – and our evidence shows that many are already facing significant harm as a result. Not only this, but the current set-up disincentives low use more generally, which works against wider moves towards increased energy efficiency and low carbon targets. The standing charge is far too costly and must be reduced.

We recently asked MSE users whether they think the way energy standing charges work should be changed, and 11,100 people responded. Nine in ten – an overwhelming majority – said they think standing charges should be lowered or scrapped entirely, demonstrating a clear appetite from consumers for a change to the way the system currently operates.¹ It’s important to note that it was made clear to respondents that reducing or removing the standing charge could increase unit rates.

*Figure 1: Should standing charges be lowered or cut and the cost put on unit rates?
(All respondents)*

Value	Percent	Responses
There should be no standing charges, increasing the unit rate	51.3%	5,694
Standing charges should be lowered, increasing the unit rate	39.9%	4,434
They should be kept roughly as they are now	3.1%	341
Standing charges should be increased, to lower unit rates	1.4%	151
I'm not sure	4.3%	480
Totals: 11,100		

¹ MoneySavingExpert.com, “Should energy standing charges be lowered and unit rates increased instead?”, June 2023. Available at: <https://www.moneysavingexpert.com/poll/2023/energy-standing-charges/> (Last accessed 29 June 2023).

It is imperative that some of the burden in the Energy Price Cap is shifted away from the standing charge to the unit rate, so that the standing charge is substantially reduced. It's essential that any move by Ofgem as a result of this review of operating cost allowances enables this, though ideally it should happen sooner. MSE fundamentally objects to any increase to standing charges.

Importantly, a move to decrease the standing charge should come with proper protections in place for vulnerable high energy users. This includes those with additional needs, such as physical or mental health conditions which lead to greater energy usage. Interestingly, 87% of those identifying themselves as being in this position that we surveyed still said they would prefer the standing charge to be lowered or abolished.

Figure 2: Should standing charges be lowered or cut and the cost put on unit rates?
(Respondents identifying themselves as having additional needs, such as physical or mental health conditions, which lead to greater energy use)

Value	Percent		Responses
There should be no standing charges, increasing the unit rate	59.0%		532
Standing charges should be lowered, increasing the unit rate	27.7%		250
They should be kept roughly as they are now	3.7%		33
Standing charges should be increased, to lower unit rates	2.1%		19
I'm not sure	7.4%		67
			Totals: 901

The government has said it will consult on the future of consumer protection in the energy market by this summer, including support for vulnerable customers. MSE has advocated for an energy social tariff, yet it's difficult to comment on specific support mechanisms without this consultation having been published. In the meantime, in order to safely bring the standing charge down, we would urge Ofgem to work closely with the government and energy firms to ensure there are protections in place for higher-consuming vulnerable customers who have greater energy needs.

The case for a reduced standing charge, and impact on households with the lowest incomes

In April 2019, the standing charge for a typical customer was around £180 – it's now just shy of £300. In our view, too much of the burden of fixed costs has been shifted onto the standing charge.

An estimated 5.5 million UK adults are behind on their energy bills – an increase of 2.1 million since March 2022 – according to new research from the Money Advice Trust.² The pumping up of the standing charge is egregious in this context. It particularly disadvantages low-income energy customers looking to reduce their energy consumption by any means, as these households tend to spend less on energy overall – so a larger proportion of what they pay goes on the standing charge.

² Money Advice Trust, "Under pressure: Tracking the impact of the high cost of living on UK households", June 2023. Available at: https://moneyadvicetrust.org/media/documents/Money_Advice_Trust_-_Under_Pressure_report_-_June_2023.pdf (Last accessed 29 June 2023).

When we asked MSE users whether the way the standing charge works should be changed, over nine in ten (92%) of those with household incomes of less than £20,000 also agreed it should be lowered or scrapped.

Figure 3: Should standing charges be lowered or cut and the cost put on unit rates?
(Respondents with a total household income of less than £20,000)

Value	Percent	Responses
There should be no standing charges, increasing the unit rate	56.5%	1,425
Standing charges should be lowered, increasing the unit rate	35.2%	887
They should be kept roughly as they are now	2.1%	53
Standing charges should be increased, to lower unit rates	1.1%	27
I'm not sure	5.1%	129
		Totals: 2,521

The high standing charge is especially a moral hazard for those on prepayment meters, who tend to have lower-income households and are more likely to be in vulnerable situations than those using credit meters and other payment methods. Even if these customers significantly or completely reduce their energy usage, they currently have no option but to top up their meters with typically £25 a month just to stay on supply.

Many users with the lowest incomes have directly told us that they cannot afford to use their heating, or are really struggling, in part due to the cost of the standing charge.³ This is harrowing and should not be the case. We've sadly heard lots of stories like the below:

- *"Because of standing charges, I cannot afford to use my heating."* – Female, 65-79, North East England
- *"I am a low user of gas and electricity. My gas usage is around £2 a month for a gas hob yet standing charge adds £9 to this. Electric standing charge is £138 a year before I turn on a light. I am a pensioner on a fixed income. To save money I sit in the dark and do not turn the heating on, just wear extra clothing to keep warm."* – Male, 65-79, London
- *"I have considered asking for my gas meter to be removed as I cannot afford the standing charge on benefits."* – Female, 50-64, South West England
- *"It seems very unfair that those who need to save money by reducing energy use should be forced to pay such large amounts even if they cut use to nothing."* – Male, 35-49, West Midlands

³ In this instance we are defining lowest incomes as those whose total household income is less than £20,000.

- *“I live on my own and in a pension. Last winter I did not use my heating until it was too cold for me I sat in blankets or went to bed. If the standing charge was lower I could use that saving in heating my room.” – Female, 65-79, North West England*
- *“I try not to use my gas as much as possible because it’s so expensive & the standing charges are a big rip off. I’m a very low user & my electric. I boil 1 full kettle & what’s left put into a flask to use to get washed with or wash my pots.” – Male, 50-64, Yorkshire*

Other low-income users described in exasperation how they’ve taken significant steps to cut down their energy usage, only to be confronted with the impacts of the high standing charge:

- *“I have multiple sclerosis & have a stairlift which needs to be left on 24/7. Because of my problems there is more laundry than there normally would be for just my husband & myself. We are very frugal, living within our means, however we spend more on standing charge for our gas over the year, than we spend on gas we use. This feels very wrong & unfair, especially to a disabled person living just on benefits!” – Female, 50-64, East England*
- *“Standing charges impact disproportionately the poorer and lower users and there is no way for them to economise.” – Male, 65-79, East Midlands*
- *“Trying to be economical with energy use because of finances & partly my way of being green...but what’s the point when the standing charge is so hefty.” – Female, 80+, South Wales*
- *“The standing charge means I can’t cut that part of the bill however hard I try to save energy – actually paying just for what is used would help limit the demand for energy by everyone.” – Female, 35-49, South East England*
- *“It is impossible to save on fuel costs when you are paying £300 a year for nothing.” – Male, 65-79, North East England*
- *“You can cut down your usage as much as possible but that doesn’t affect the standing charge which is very unfair. It doesn’t matter how much electricity you use, we all have to pay the standing charge. I’m a low user and have solar panels, I’m doing my bit why can’t they?” – Female, 50-64, West Midlands*
- *“I have always been very conscious of how I use gas & electric to keep my costs down but with the huge increase in standing charges my bill has increased massively and I can now do nothing to bring the cost down.” – Female, 35-49, North West England*
- *“I do my best to reduce my energy consumption, to the point of being tight. I feel I am being penalised unfairly with the standing charges being so high.” – Female, 50-64, Southern England*
- *“It’s not acceptable that I have to pay money for not using any energy. If I go into hospital or take a very rare holiday. I still have to pay standing charges for my energy.” – Male, 50-64, Yorkshire*

- *“As a 1 person household in a 1 bed house who's always been a low user, my combined energy bills were £35 a month 2 years ago. Now they are £95. With this on top of the only getting 25% off council tax for 1 adult households rather than 50% and the miniscule low rates for single people being able to claim Universal Credit, it is really dire for single person households at the moment.” – Female, 35-49, East England*
- *“I have reduced my unit usage to the bare minimum due to being disabled and unable to work. Even so, my energy costs have risen enormously, solely due to the significant increase in standing charges. I totally understand that the infrastructure costs money to maintain, but how does it possible encourage people to reduce energy usage when standing charges are as high as they are?” – Male, 35-49, South Scotland*
- *“I reduce our usage to absolute minimum, but there is nothing I can do about standing charges, it's a complete nightmare. I would happily be without gas but I moved into a rental house that had gas supply, so now I'm committed to paying these excessive standing charges for something I don't even really want.” – Female, 35-49, North West England*

Others shared their desperation at having to choose between heating and eating – a situation they'll likely face again if standing charges remain high.

- *“Been forced into spiralling depression choosing between food and heating last winter. Can't face another one like that.” – Female, 35-49, North East England*
- *“I am currently paying more than 10% of my income [on energy] and that puts me in fuel poverty. I am a pensioner but not eligible for pension credit. I spent last winter feeling too cold because I couldn't afford any more.” – Female, 65-79, Southern England*
- *“Standing charges penalise those who are trying to save money by using less energy. Paying £300 whilst still being cold in your own home makes no sense.” – Male, 50-64, West Midlands*

Research by National Energy Action (NEA) from spring 2023 also highlighted some stark findings around the current standing charge setup on vulnerable low-income energy customers.⁴

It found that a standing charge of £350 per year – what prepayment meter customers have been facing until efforts to equalise payment methods come into effect from July 2023 – accounts for 41% of what those in the poorest 10% of households have available to spend on energy, and leaves them with only £508 worth of gas and electricity every year. Not only this, but the NEA report also suggested that the current level of the dual fuel standing charge for non-PPM customers greatly exceeds (by approximately £200) the costs suppliers incur in serving a customer.

With low-income customers currently being disproportionately and unfairly impacted by the very high standing charge, the case for intervention is supported.

⁴ National Energy Action, “Reforming energy standing charges for prepayment customers”, April 2023. Available at: <https://www.nea.org.uk/news/new-report-reveals-energy-standing-charges-set-to-increase-to-new-high-up-by-64-leaving-low-income-households-worst-hit-2/> (Last accessed 28 June 2023).

We are also hearing from energy suppliers that levels of energy indebtedness are growing at a worrying rate. It is rational to shift some of the burden from the standing charge to the unit rate in this context, so users more readily benefit from a reduction of their energy usage.

Concluding remarks

The standing charge is a moral hazard, as it means those who are desperate and trying to cut back their energy usage gain little benefit from it.

This is about whether the burden of what are deemed to be fixed costs are placed on standing charges or unit rates. MSE and Martin Lewis would like to see a more progressive split, that moves some of the standing charge cost onto the unit rate and reduces the overall cost of the daily fixed charges. This would mean if you cut your use, there is a larger impact on cutting your bills, and it empowers people to take action that's good for themselves and likely the environment too.

Ofgem should use this moment as an opportunity to rectify this problem, while ensuring protections are in place for vulnerable customers with high energy usage.

About MoneySavingExpert.com:

[MoneySavingExpert.com](https://www.moneysavingexpert.com) is dedicated to cutting consumers' bills and fighting their corner. The free-to-use consumer finance help resource aims to show people how to save money on anything and everything, and campaigns for financial justice. It was set up in 2003 for just £100, and its free-to-use, ethical stance quickly made it the UK's biggest independent money website, according to internet ranking site Alexa.com, and the number one 'Business and Finance – Business Information' site, according to Hitwise.

It has more than 8.6 million people opted-in to receive the weekly MSE's Money Tips email, and 10.4 million unique monthly site users who visit 19.9 million times a month, including the MSE Forum, which has more than two million registered users. In September 2012, it joined the MoneySupermarket.com Group PLC.

In the event of any queries, please contact the campaigns team:
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ANNEX

Additional comments from MSE users and the Money and Mental Health Policy Institute Research Community members

We've heard from an innumerable amount of MSE users venting their frustration and struggling with the current standing charge setup.

Many have described how, despite best efforts to cut down on their energy usage, they are met with fixed costs they can't bear or will have difficulty paying. This includes many on low incomes and struggling to make ends meet:

- *"I have a smart meter and I've spent almost £1.20 a day before I've even got up, which is so frustrating as I'm really careful about energy consumption. This time last year, I could spend £1.50 or less a day. If rather pay a bit more for the units I do use, rather than a blanket charge for everyone."* – Female, 35-49, East Midlands
- *"It's unfair because it bears no relation to ability to pay."* – Male, 65-79, London
- *"Standing charges should be very low, perhaps not zero though. But no-one living in the cold because they can't afford to heat their homes should be paying 80p a day or so just for the privilege of getting a bill for gas and electricity."* – Female, 65-79, Yorkshire
- *"[Standing charges] disproportionately penalise those who use lower amounts of energy like me in a single person household and minimal usage."* – Male, 25-34, South Wales
- *"In practice, what this [process] means is that a poor person who cannot afford their electric bill, chooses to use less power to save money, but achieves very little as the standing charge is so high. A 50% cut in power usage does not result in a 50% cut in the bill, as a considerable part of that bill is now the standing charge."* – MSE email user
- *"My standing charge can be more than my energy use some months. That can't be fair. If they scrap them it will even out. I am single, disabled, so I use a fair amount."* – Female, 35-49, South East England

Others describe low or reduced motivation to actually cut down on energy usage, resulting from a perceived lack of financial results:

- *"The high rate of standing charges is unfair as you can have little impact by saving energy yourself. For example, we have solar panels and hardly use any electric in summer but still have to pay the significant standing charge."* – Female, 35-49, West Midlands
- *"Due to the ever increasing cost of the standing charge it means less units are used in our household. We have always been lean with our usage so the ongoing increase in the standing charge feels like a punishment for trying to be sensible with our usage."* – Male, 50-64, North West England

- *“Standing charges hugely penalise low users and disincentivise reducing usage (bad for pockets & the environment). The disadvantaged with necessary high usage should be supported.”* – Female, 50-64, West Midlands
- *“Standing charges are a regressive charge and only go to benefit high users and penalise low users and are particularly problematic for prepay meter users.”* – Male, 65-79, Southern England

Findings from the [Money and Mental Health Policy Institute](#) – a research charity established in 2016 by Martin Lewis to break the link between financial difficulty and mental health problems – also highlight issues with the current standing charge setup. The Institute’s research and policy work is informed by its Research Community, a group of thousands of people with lived experience of mental health problems or caring for someone who does.

With permission, we would also like to include comments from some members of its Research Community who have expressed concerns around high energy prices and standing charges, describing their experiences:

- *“I’ve had to cut right down on electricity and there’s now things I just can’t afford to do, like turn on my PC because essentials like the washer come first. I’m using my slow cooker as much as possible to save money cooking. The standing charges are crippling. I’ve had to skip my therapy as I can’t afford to get there anymore. I’m trying to find a way round that as my health is being impacted. But there’s nothing else to cut back on.”*
- *“My energy alone has increased by £105 a month, from £55. As it was a fixed rate, so energy rate and standing charge rise. Combined with rest of bills, I’m now near £200 a month more than last April. Meaning I had to ask if I could work full time from part time, which in part I was doing to help recover from 2 years of anxiety and depressive episodes.”*
- *“I’ve given up. My fixed term ended as the energy prices went up so mine have doubled. I realised I use very little energy and most of the cost is in the daily standing charge so I haven’t tried to reduce my usage as it would make little difference for a lot of suffering. My outstanding credit card amounts are getting higher every month. I’m definitely more stressed and anxious about money.”*