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## Standing Charges: Summary of Responses

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This document summarises responses received to our Standing Charges call for input. It encapsulates views of consumers, charities, and various stakeholders. This is not a decision document, but rather an update which sets out the feedback that has shaped the considerations within our accompanying options paper.

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## **Executive summary**

### **Ofgem’s call for input**

In our November 2023 call for input on Standing Charges, we sought input from key stakeholders, including, but not limited to consumers, charities, and industry bodies such as energy suppliers.<sup>1</sup> The response to our Call for input on Standing Charges was exceptional, with over 30,000 individual consumers contacting us, either independently or as part of email campaigns. Overwhelmingly, those responses called for us to take action to reduce standing charges, with a majority of domestic consumers who responded calling for them to be abolished outright. Responses from many non-consumer stakeholders also indicated an appetite for change.

Regarding standing charges, there was a note of caution in many of the responses, including some from consumer bodies and charities. These responses noted that some consumers, including some vulnerable consumers, would lose out from a shift of costs from standing charges to unit rates. Some respondents also highlighted that a simple ban on of standing charges without changing how the underlying costs that make up those charges are recovered, might result in suppliers being unable to recover the costs that they incur in supplying some customers. This would have unpredictable effects, including the possibility of disorderly market exit for some suppliers – resulting in further costs being incurred by consumers.

Throughout most responses, particularly from domestic consumers, there was a clear desire for standing charges to be reformed in some way or abolished entirely. Many consumers shared frustrations that they felt standing charges acted to disincentivise reducing consumption, noting a lack of reward for using low carbon technologies, such as solar panels. Additionally, they noted that the cost of standing charges being fixed regardless of consumption also disincentivised behaviours which could lower consumption.

It was clear throughout consumer responses that the subject of standing charges has been a key interest for consumers, with a keen appetite for change, both in standing charges and how Ofgem support consumers as a whole. Views shared highlighted that consumers didn’t feel Ofgem had consumers’ interests as a priority, noting confusion about what costs are included in standing charges. Particularly, responses highlighted that SoLR costs should be removed from standing charges, describing it as unfair that

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<sup>1</sup> [Standing charges – call for input | Ofgem](#)

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suppliers could recover these costs through standing charges. Additionally, responses called for the introduction of a social tariff, noting the importance of support for consumers and ensuring access to energy as a basic necessity.

The tariff offerings within the energy retail market were also an area of our call for input which received fairly consistent views from stakeholders. The key points being the risk that shifting costs from standing charges to unit rates in any capacity could pose a risk to the most vulnerable in society. Additionally, if suppliers were to offer zero or low standing charge tariffs, there was a concern these wouldn't be financially viable, resulting in the potential requirement for an additional risk premium to be considered within the price cap in order to prevent suppliers from under recovering their fixed costs. This potential under recovery of costs was noted as the reason for lack of innovation in tariff offerings.

This publication aims to summarise the responses we received and clarify trends found in the views shared. Noting that no group responded uniformly, this document captures the key trends and viewpoints against the respective call for input questions and significant minority views.

## 1. Introduction

### Background

- 1.1 In November 2023, we published our call for input on Standing Charges. This publication opened the conversation between Ofgem and our stakeholders to look at the elements which affect energy charges, and this allowed the opportunity to understand stakeholder views which could potentially be used in developing options for change. We invited views from all stakeholders, particularly energy suppliers, consumers, and charities.
- 1.2 In our call for input, we outlined the drivers for the increases in standing charges, highlighting that the effect of increasing standing charges falls disproportionately on consumers who are lower down the income distribution, and consumers who use less energy have seen a greater proportionate impact on their bills. This has caused considerable concern amongst stakeholders, driving our desire to better understand if change is needed.
- 1.3 This publication provides a summary of stakeholder responses to the 14 questions set out in our call for input. It outlines the views of consumers and non-consumer stakeholders, highlighting both common themes and more specific areas of interest following the significant volume of responses received. It does not focus on policy recommendations that we may make as a result of this feedback.
- 1.4 It is important to us to gather views from a broad range of stakeholders. We have supplemented this feedback by running workshops with suppliers, consumer groups and charities.
- 1.5 We received over 30,000 individual consumer responses, either independently or as part of an email campaign. We also received 86 responses from non-consumer stakeholders, including local governing bodies, energy suppliers, charities, and others.

## 2. Campaign and consumer responses

### Campaign responses

- 2.1 The organised campaigns demonstrated the strength of feeling among the public for change in relation to standing charges. One particular campaign platform gave us useful insight into some individual consumer struggles. This included highlighting challenging circumstances for a wide range of consumers, such as a single parent NHS nurse who had avoided using their heating for a year due to the cost of their monthly energy bill reaching almost £400. They explained that the choice was between warmth or feeding their children. Additionally, we read of examples from consumers with disabilities who spend most of their time at home, choosing to utilise appliances like electric blankets rather than their heating as a means to reduce their energy bills.
- 2.2 Further case studies seen in the campaign responses explained how the increase in standing charges had impacted consumers health. One such example explaining that the increased cost on their energy bill, which is difficult to reduce due to electric powered medical equipment, meant purchasing lower quality food and reducing usage of their heating, resulting in detriment to their already challenging physical health.
- 2.3 The commonality among these individual examples seen within the campaign emails is that these consumers evidenced the cost of standing charges as the reason they have to resort to drastically reducing consumption in order to impact their energy bills.
- 2.4 They also clearly articulated the changes they want to see including:
- Standing charges to be abolished, and instead shifting these costs to energy suppliers to absorb using profits.
  - Requiring energy companies to implement charging based on energy consumption in order to support low consumption households.
  - Better support specifically targeted at low-income, high consumption households.



- 2.5 The other campaign platform equally gave a detailed view of what change these respondents wanted to see in relation to standing charges. They detailed specifically the view that standing charges are unfair, using the example that a small flat and a large mansion could pay the same standing charges. This campaign expressed that removing standing charges should be the first critical step in creating a fairer system.
- 2.6 Additionally, this campaign suggested the introduction of rising block tariffs, which prioritise low usage consumers paying less towards standing charges. Both campaign platforms highlighted protecting members of society with high energy needs as a result of being a vulnerable consumer, such as requiring medical equipment which relies on electricity.

### **Domestic consumer responses**

- 2.7 In addition to the campaign responses we received 12,850 responses directly from individual consumers, most of which were domestic consumers. In reviewing each of these responses we have identified themes which highlighted shared views in how people feel about the current standing charges regime.
- 2.8 The responses often gave useful insight into individual circumstances of consumers, giving details of how standing charges has impacted their ability to reduce their energy costs. Many responses articulated that they felt standing charges disincentivised them from making changes to their consumption habits, noting that they felt they couldn't substantially impact their energy bills through changes to their consumption. This was often described as feeling of powerlessness to influence energy costs as a result of standing charges forming a significant percentage of energy bills.
- 2.9 Around 90% of the respondents expressed views that standing charges are unfair. Most of these responses articulated a desire for the standing charges they pay to reflect their energy consumption, using this as a reflection of their individual demand on the energy network. This was a consistent theme throughout the responses from domestic consumers as, while they understood the purpose of a standing charge, they believed it would be fairer if standing charges were spread based on personal usage rather than a fixed cost.

- 2.10 Around 60% of independent consumer respondents argued that standing charges should be abolished entirely. Similarly to the campaigns, some of these felt the costs included in standing charges should be absorbed by energy companies. Another view shared regarding abolition of standing charges was that the cost currently included in standing charges should instead be moved to unit prices. By moving the cost to unit prices, respondents anticipated this would encourage suppliers to be more innovative with their tariff offerings in order to recover their fixed costs. Respondents explained their concerns that the current recovery method of fixed costs, alongside the price cap discouraged suppliers from offering innovative tariffs. The viewpoint was that most suppliers are offering tariffs compliant with the price cap and utilising this as a method of charging more than necessary in some cases, collecting more in both unit rate and fixed costs.
- 2.11 There was a subset of consumer respondents that noted standing charges as being 'fair', often referencing an understanding that the cost of running the energy network is a necessary cost. However, many of these respondents consider that more support should be available for some consumers such as low usage consumers, vulnerable consumers, and low-income households.

### **Non-domestic consumer responses**

- 2.12 Where responses were received from or on behalf of non-domestic consumers, the majority of respondents did not support the usage of standing charges, articulating that standing charges should be capped, in line with inflation. Additionally, non-domestic responses described a desire, similar to that of domestic responses, for standing charges to be more easily understandable and transparent. Overall, the non-domestic responses echoed many concerns raised by domestic consumers, noting predominantly that they felt it was unfair for standing charges to be so high.
- 2.13 The Targeted Charging Review (TCR) changed how charges are applied in the retail non-domestic sector as well as in the domestic sector. Following the TCR, the top-up 'residual' portion of network charges are now charged as a fixed charge, levied as a daily site charge. This contrasts with the previous approaches, that recovered this residual part through unit rates for distribution charges, and through time-of-use charges on usage at certain peak times for transmission charges.

- 2.14 Whilst all domestic consumers are charged at a single rate per site under the TCR, non-domestic customers are charged under a banded structure made up of fixed transmission and distribution residual charges, based on capacity or consumption at a site. Therefore, non-domestic consumers have seen larger daily fixed charges than previously. How these costs are borne by the customer will depend on their commercial relationship with their supplier. Whilst these costs may be charged to the customer as standing charges, it is not guaranteed that they will be.
- 2.15 Views shared by non-domestic consumers often commented on the impact of the TCR, with some mentioning specific changes that could be implemented in order to improve how these costs are recovered, including the requirement for certain costs to be recovered through gas standing charges.
- 2.16 As a subset of non-domestic consumers, we received seven responses to this question from various drainage boards, which are a public body that manage water levels in an area, known as an internal drainage district. These responses all mentioned that since the TCR, standing charges had surged. One respondent indicated that price had increased across twelve sites by 1096%. They argued for Ofgem to work with Department for Energy Security and Net Zero (DESNZ) and Department for Environment Food and Rural Affairs (DEFRA) to agree to an exception for this sector. They also asked for a framework where the energy sector financially contributes to relevant revenue and capital expenditure of Internal Drainage Boards (IDBs).

### **Net zero**

- 2.17 When reflecting on net zero targets, it's crucial we are able to understand how consumers are currently engaging with low carbon technologies such as solar panels and heat pumps. We addressed this within our call for input, noting that the way charges are placed into either standing charges or unit rates, can arguably change incentives for consumers to reduce consumption, as well as impact their affordability for domestic consumers.
- 2.18 Within the responses to our call for input, many consumers raised concerns regarding reducing their energy consumption, reliance on fossil fuels, and how standing charges influences their engagement. Consumers with equipment such as solar panels, do not benefit from a reduced standing charge despite

their input into the grid and reduced reliance on fossil fuels. We saw several responses which detailed frustrations regarding this, particularly considering the cost of installing solar panels and the perceived benefits. This again referenced the challenge that, despite the reduction in consumption, the standing charge remains fixed, which was described as unfair.

- 2.19 The theme amongst these responses was that for consumers who are generating their own energy or selling energy back to the grid, there should be a considerably lower, or even no standing charge. These responses were particularly emotive, with many describing their generation equipment as a scam, since the standing charge impacted their ability to achieve their perceived full potential in savings. Further to this, some consumers who do not yet have any energy generating equipment explained their hesitancy to do so, feeling that it would not be a financially beneficial decision when considering the cost of installation and standing charges. Many of the responses from consumers who did not yet have the equipment advised they were not likely to progress with solar panels or heat pumps.
- 2.20 These points are significantly useful in understanding how standing charges could potentially impact our journey towards net zero, particularly when considering the changes that are required in our infrastructure and network charges in order to achieve our targets.

### **Regional differences**

- 2.21 Within our call for input, we discussed why we see regional differences in standing charges. We explained that the difference in standing charges across the GB market is reflective of the cost to transport energy to various regions. This was further impacted by the TCR, causing some regions to see a more significant increase than others dependant on location.
- 2.22 Utilising data from September 2021 and October 2023, we were able to understand the difference in the average standing charge in different regions. It became clear that Scotland and areas of northern England experienced higher standing charges than areas such as London.
- 2.23 Throughout the consumer responses, it seems that regional differences weren't a common concern, as most views focussed on very specific personal

circumstances or were specifically targeted at encouraging Ofgem to abolish the standing charge all together. Of the responses which did share concerns and views on regional differences (roughly 5%) they were predominantly from consumers in the areas where standing charges are the highest.

- 2.24 Much of the views shared continued to be rooted in fairness, explaining that everyone should bear the same cost of accessing energy. Some respondents explained that the standing charge they were paying was disproportionate to their level of usage, which fuelled their views in that the cost of their energy should be decoupled from standing charges. Some responses suggested that a separate mechanism should exist in order to empower consumers to control their energy bills through changes in consumption, paying things like network charges in a separate format outside of their energy bill.
- 2.25 Throughout the responses that described regional differences in standing charges as unfair, they also mostly supported the abolition of standing charges. The majority of these responses supported a charging regime which meant you only pay for the energy you have used, placing the cost of standing charges into the unit rate, therefore abolishing the standing charge. Many of these respondents described themselves as 'typical users' in relation to the amount of energy they consumed, and as a result, it is understandable why they favour a regime which would shift the cost of standing charges into unit rates, as this would likely reduce their energy bills. However, this shift in charging, particularly in regions where the standing charges are higher, could disproportionately impact those who are higher consumers, specifically considering vulnerable consumers who rely on electrical medical equipment.
- 2.26 Due to the significant number of responses, there were many viewpoints which were very specific to individual consumers. One such view being of those in rural locations, also impacted by higher regional standing charges. Views shared explained specific challenges faced by consumers who are unable to access mains gas due to their rural location, and therefore rely on electricity for heating. These responses clarified that they wanted to see a level approach to standing charges across the network. However, these views also demonstrate support for the purpose of standing charges while expressing that the current regime was unfair.

## **Storage heaters**

- 2.27 A select number of responses highlighted an issue which explained that some consumers were experiencing two standing charges being levied for one property as a result of having two meter points in order to operate storage heaters. These meter set ups require two meters in order to facilitate a peak and off-peak tariff, however these responses shared concerns that they had previously been able to agree tariffs with only one standing charge, but that was no longer the case.
- 2.28 These responses gave detailed examples of their supplies and the challenges they were facing in relation to obtaining suitable contracts, as well as the frustration experienced at feeling they have no other option but to pay for two standing charges based on the tariffs they were being offered. Additionally, these responses, while a small percentage of the overall response, were clear on the impact this issue was having on their energy bills, as well as their incentivisation to reduce their usage. One such response explained that they utilised storage heaters due to having a relatively low annual electricity consumption, however they felt they were unhappy with their choice due to the increase in costs they had experienced.
- 2.29 It was clear throughout these responses that consumers felt this was unfair and while they, as a majority did not believe abolition of standing charges was the recommended solution, there was a clear appetite for change and support from Ofgem in resolving this issue. As such, we are working with suppliers to further understand this issue.

## **Sentiment about Ofgem**

- 2.30 Throughout the responses, there were strong feelings shared in relation to how Ofgem has navigated the increase in standing charges, as well as how it could better support consumers. A common theme expressed was that Ofgem is more concerned with supporting energy companies than the consumers who were struggling to pay their energy bills.
- 2.31 Some responses expanded on this point, detailing that it was unfair for energy suppliers to recoup costs associated with the Supplier of Last Resort (SoLR) process through network costs, and that Ofgem was putting the needs of

suppliers ahead of consumers. In addition to this, there were many responses which outlined a desire for particular costs to be excluded from standing charges, predominantly the cost associated with the SoLR process.

- 2.32 A common theme in the responses was that Ofgem ultimately didn't have the interest of consumers as a priority, some responses explaining that they felt this hadn't been the case for a long time. Similarly, there were many emotive responses which felt that Ofgem should be replaced or reworked in order to provide consumers with a fairer and more effective regulator.
- 2.33 In summary it is evident that the subject of standing charges has been a key interest for consumers, with a keen appetite for change, both in standing charges and how Ofgem support consumers as a whole. Following the feedback received throughout our call for input on standing charges, we will use this feedback to effectively inform recommendations on potential changes to policy to support current and future consumers.

### **3. Standing charges, network charges and the price cap**

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

Q1.1 Our call for input explained that currently the majority of customers are on tariffs that are protected by the default tariff cap (the 'price cap'). We noted that there are specific licence provisions that give suppliers flexibility to offer low or no standing charge tariffs. At present, few suppliers have taken up this offer, and we were keen to understand the reasons why.

#### **Supplier responses**

Q1.2 We received nine responses to this question from suppliers or supplier representatives.

Q1.3 The principal reason given by suppliers to this question was that offering zero or low standing charges under the price cap was commercially unsustainable. According to suppliers, they risk under-recovering the full costs of servicing customers under a zero standing charge tariff. Suppliers believed that a tariff without standing charges would be attractive to low-consuming customers, and therefore increasing the unit rate risked not recovering all fixed costs, which would still be incurred by suppliers at the same rate for each customer regardless of their consumption. There was also concern that failure to recover costs could lead to insolvency and market exit. One respondent noted that without the price cap a "risk premium" would need to be added to the unit rate to protect against the risk of under recovery and insolvency. They further explained that under the price cap, this type of "risk premium" is impossible by design.

Q1.4 A number of suppliers blamed the price cap methodology for the lack of flexibility, stating that its structure meant that tariffs with a standing charge and unit rate were the most straightforward options for suppliers to offer from a pricing, cost recovery, and compliance perspective.

Q1.5 A heightened burden of compliance was also referred to as a constraint to innovating with zero standing charge tariffs. Suppliers indicated that whilst the relevant conditions of the Gas and Electricity Supply Licences (SLC 28AD 32 and 33) allow for alternative tariff structures, they also require the supplier to firstly



seek a direction from Ofgem and to assess each customer's charges under the tariff within the relevant Charge Restriction Period. One supplier noted that "we would find it very onerous to provide evidence to Ofgem that we are still compliant with the price cap across all customers and all regions - and this is an onerous assurance that would need to be repeated every time the price cap changes."

- Q1.6 Some supplier respondents noted that providing a wider range of tariffs could be confusing for consumers and would adversely affect consumers' ability to compare between tariffs.

### **Networks and network group responses**

- Q1.7 We received three responses to this question from network companies.
- Q1.8 These respondents highlighted cost recovery as the principal barrier to innovation under the price cap, although one respondent noted "market competition, regulatory constraints, risk aversion and profit margins" as alternative reasons.

### **Consumer and charity groups responses**

- Q1.9 We received four responses to this question from consumer representatives and charities.
- Q1.10 These respondents echoed the views of Suppliers and Networks by signalling lack of commercial sustainability as reasons for the limited range of tariffs.
- Q1.11 One respondent noted that suppliers could offer low or zero standing charges, but that these tariffs usually require much higher unit rates on at least some of the units of energy used, to manage the risk of not recovering their fixed costs. They emphasised the importance of supplier transparency regarding which consumers would be likely to benefit from such tariffs and mentioned previous occasions where low or zero standing charge tariffs had been poorly explained by suppliers. The respondent notes that Ofgem should consider these risks when deciding how to widen the tariff offer from suppliers.
- Q1.12 Additionally, another respondent noted that some suppliers currently offered zero standing charge tariffs, however, the structure of those tariffs in effect replicate the financial impact of a standing charge.

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

Q2.1 In our call for input, we noted that tariffs actively offered by customers, such as fixed rate tariffs, are not subject to the price cap and so suppliers have the opportunity to set lower standing charges if they so desired. We asked respondents why suppliers were not innovating in this area.

### **Supplier responses**

Q2.2 We received nine responses to this question from suppliers or supplier representatives.

Q2.3 Suppliers' reasons for lack of innovative tariff structures include the risk of under-recovery of costs, limitations attributed to price cap structure, and complexity.

Q2.4 Suppliers were of the view that innovation on standing charges presented an unacceptably high risk. They explained concerns that low usage consumers, who would be attracted to zero standing charge tariffs, would increase the risk of suppliers under-recovering against their fixed costs. Some suppliers highlighted the risk of 'tariff-hopping' (moving from a low-standing-charge tariff in summer to a high-standing charge tariff in winter), with one highlighting that this means that suppliers are likely to attach high exit fees to tariffs with lower standing charges in order to disincentivise this behaviour.

Q2.5 Where concerning specific innovations, one supplier indicated concerns that levying costs on a volumetric basis would disincentivise consumers from load shifting as it would minimise the difference of the cost of energy at peak and off-peak periods. This respondent further explained that innovation on standing charges could be a distraction from meaningful innovation and system changes.

Q2.6 Some suppliers argued that that Ofgem's Retail Market Review (RMR) in 2010 restricted their ability to offer zero standing charge tariffs as well as questions about whether the re-introduction of these tariffs would be properly understood by consumers.<sup>2</sup> According to some responses, consumers had more information

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<sup>2</sup> [Retail Market Review | Ofgem](#)

on tariffs than ever before and this makes it easy to compare available tariffs on the market.

- Q2.7 Other responses indicated that the existence of the price cap reduced the scope of suppliers to innovate. It was argued that whether a tariff is capped or not, suppliers still had to recover their costs the same way by price per day and price per kwh. One supplier noted that the price cap “acts as an ‘anchor’ on the structure as well as the level of competitively offered tariffs”.

### **Networks and network group responses**

- Q2.8 We received two responses to this question from network companies.
- Q2.9 These respondents offered similar views to supplier respondents, noting that tariffs with zero standing charges would leave suppliers with a risk of under recovery. Even where tariffs are not covered by the price cap, suppliers need to pass fixed costs through to consumers.

### **Consumer group and charity responses**

- Q2.10 We received four responses to this question from consumer representatives and charities.
- Q2.11 Throughout these responses, consumer focussed respondents called for the introduction of lower cost options such as a social tariff for low-income households or high energy consuming households with a reliance on electricity or gas due to medical needs. Responses spoke on suppliers’ unrestricted ability to reduce and/or remove standing charges through innovative products but were not engaging with this ability. The overarching theme for limited innovation was a lack of incentive to do so, owing to insufficient competitive pressure, and refusal to disrupt the status quo because of unprecedented profits.
- Q2.12 The principal reason given for the lack of competitive pressure was the wholesale gas crisis and its aftermath, which had left suppliers unwilling to take on additional risk and cautious to recruit new customers.
- Q2.13 Respondents shared the view that suppliers were not keen to introduce new tariffs since they are seeing unprecedented profits. They indicated that it was within Ofgem’s role to support consumers, while maximising profits for shareholders is the target of energy companies.

### **Q3: What changes could Ofgem make to improve provisions for lower standing charges under the cap?**

- Q3.1 In our call for input, we noted that as long as a customer is not charged at a level above the relevant price cap for the volume of energy consumed, how a supplier chooses to set standing charges and unit rates is a commercial decision for them.
- Q3.2 In our 2018 price cap decision we considered the risk of setting a cap on standing charges and unit rates which might impact the number of tariff offerings with low or no standing charges.<sup>3</sup> To mitigate this risk, we included specific provisions in the licence to give suppliers flexibility to offer low or no standing charge tariffs, with higher unit rates, which may benefit customers with lower than typical consumption. Despite these provisions, at the time of publishing our call for input there had been limited innovation by way of reduced or zero standing charge tariffs in the energy market. We sought to find out what else could be done to encourage innovation.

#### **Supplier responses**

- Q3.3 We received nine responses to this question from suppliers or supplier representatives.
- Q3.4 Suppliers had mixed views on what provisions Ofgem should take to lower standing charges under the price cap. Generally, these responses focussed on how Ofgem can lower the costs that currently underlie standing charges.
- Q3.5 There were calls for Ofgem to review how costs accrue to suppliers, with one supplier respondent noting that certain network and policy costs have been explicitly designed as fixed costs. They believed that changing the structure of these costs would likely increase the range of tariffs available with low or zero standing charges. Others called for the make-up of policy costs, such as the Warm Home Discount, to be reviewed.
- Q3.6 Many suppliers welcomed Ofgem’s post-implementation review of the Targeted Charging Review (TCR), highlighting that revisiting which costs were charged to

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<sup>3</sup> See ‘Decision – Default tariff cap – Overview document’, at [Default Tariff Cap - Overview Document \(ofgem.gov.uk\)](https://www.ofgem.gov.uk), p36

suppliers on a fixed basis may introduce more scope for costs to be passed on to consumers on a 'unit-cost' basis. One supplier called for Ofgem to review its current approach to network charges as reliefs from Energy Intensive Industries and Electric Vehicles (EVs) charges have placed a greater burden on existing customers than was envisaged under TCR. It was suggested that Ofgem should review the current approach to network charge cost recovery and consider moving residual recovery to a blanket p/KWh.

Q3.7 Supplier respondents shared views that reassessing policy costs would reduce standing charges and there was support for policy costs to be removed from standing charges, instead to be funded by taxation. Alternatively, others proposed that policy costs should be charged to gas bills. Additionally, one response called for standing charges to be simplified, either by making the costs equal across the GB network or by removing standing charges altogether.

Q3.8 However not all suppliers supported shifting policy costs in these ways, with one respondent outlining that Ofgem should not mandate how suppliers pass costs on to consumers and that the TCR review was the right course of action.

Q3.9 Concerning a social tariff, some responses expressed support for it alongside the price cap as well as support for a social tariff replacing the price cap altogether. In addition there were two responses which focussed on the price cap itself, one noting support for the cap and another which supported it being scrapped.

### **Networks and network group responses**

Q3.10 We received two responses to this question from network companies.

Q3.11 Neither response sought to make any transformational recommendations, instead they focussed on proposing improvement in supplier transparency and increased focus on long term principles.

Q3.12 Regarding improvements to supplier transparency, responses detailed that this would provide consumers with an accurate cost breakdown of their charges. Respondents specifically noted the benefit of consumers understanding how much of the standing charge is due to the Distribution Network Operator (DNO) network, and how much is down to the Electricity System Operator (ESO). Some respondents thought that the focus should be on long term principles rather than

a short-term objective of reducing standing charges. They explained this to be more appropriate in protecting against volatility and uncertainty in the future.

### **Consumer group and charity responses**

Q3.13 We received sixteen responses to this question from consumer representatives and charities, expressing a variety of views.

Q3.14 Some respondents requested improved clarity for consumers and suppliers under the price cap, similar to the transparency noted by responses from network companies. They further clarified that Ofgem needs to ensure that the costs are efficient.

Q3.15 Many respondents used this question to call for a general reduction in standing charges. Some respondents had called for some costs (notably policy costs and SoLR costs) to be covered through general taxation rather than standing charges. Some respondents explained their view that the TCR has increased costs and called for the TCR to be scrapped in order to positively impact consumers' energy bills.

Q3.16 Other respondents highlighted the view that regional differences in standing charges are inherently unfair. This view was commonly expressed by stakeholders representing consumers and other groups in regions with higher standing charges. One respondent, in support of the approach to recover costs through unit rates, noted that the cost of network upgrades in rural areas should not just fall on people in rural communities.

### **Government, LGA and political responses**

Q3.17 We received three responses to this question from various political groups.

Q3.18 Although all respondents agreed that Ofgem should replace or reduce standing charges, their methodologies differed. Two respondents requested a shift to volumetric charging, while introducing a social tariff to mitigate adverse impacts. The final respondent called for a rising block tariff alongside the removal of standing charges.

**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?**

Q4.1 Our call for input noted that as a result of the 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. Through this question, we sought to find out if these costs are considered to be fair.

**Supplier responses**

Q4.2 We received ten responses to this question from suppliers or supplier representatives.

Q4.3 Most suppliers noted that Ofgem’s Targeted Charging Review had a valid rationale, to make the distribution of costs across the retail market fairer. However, they mentioned that one of its implications was increased standing charges for domestic consumers.

Q4.4 Some supplier respondents highlighted the complexity of deciding what could be considered as fair. One respondent noted that Ofgem should recognise the limits to “purist” cost reflective network charging on customer behaviour. Another noted that whilst it is not implicitly unfair, network charges should reflect the cost of service to consumers. Furthermore, if a high enough proportion of the public and consumer advocates supported the abolition of standing charges, then it would be fair to do so. The same respondent noted that if Ofgem were to abolish the standing charge, it would need to be done in a way that would minimise the risk of instability arising from suppliers potentially having to supply energy below their costs.

Q4.5 Two supplier respondents noted that since the TCR had shifted only the residual charges onto fixed/customer related costs, Ofgem could lower standing charges by reviewing why a high proportion of Transmission Network Use of System (TNUoS) and Distribution Use of System (DUoS) costs are from residual charges.

Q4.6 However, some supplier respondents noted that the TCR had reduced the scope for distortions in how charges were applied to consumers and that moving costs to volumetric charging would undo these benefits the TCR sought to deliver. One supplier noted that consumers would have paid even more during the recent wholesale gas crisis had the TCR not been in place.

### **Networks and network group responses**

Q4.7 We received five responses to this question from network companies.

Q4.8 Two respondents indicated that consumers should pay for the DUoS charges and any attempt to change this would be a cross subsidy. They added that it was difficult to argue for low usage consumers to pay less for the service they receive, as this would pass the costs on to others. Further responses spoke on fairness, noting this being within the role of the Government or Ofgem to investigate questions of social-economic fairness.

Q4.9 Additional responses noted that since implementing the TCR, the DUoS standing charge represents around 50% of the total DUoS charge for a typical domestic customer as the other half is collected via Unit Rates. They explained that Ofgem should review the allocation of costs for the purposes of DUoS charges based on the primary driver of those costs. This could then be used to avoid elements of these costs being allocated to the standing charge.

Q4.10 One response outlines the main issue with the fixed charge being that the methodology was not updated at the same time as the TCR, which led to a price shock for consumers as it was implemented very suddenly.

### **Consumer Group and Charity Responses**

Q4.11 We received eighteen responses to this question from consumer representatives and charities.

Q4.12 Respondents from consumer and charity groups shared a general negative opinion of the TCR. They believed that Ofgem had not considered the impact of moving elements of cost recovery from unit rates to fixed costs. Most responses called for standing charges to be moved into unit rates, referencing an injustice to low usage consumers from vulnerable or low economic backgrounds who have to pay the same rates as households with high energy consumption.



- Q4.13 One respondent representing a subset of non-domestic consumers argued that Ofgem’s changes to energy regulation, such as the TCR, and the lack of transparency, had led to confusion. They also noted it created a fear for consumers that suppliers are using this method of cost recovery to make up for lost revenue during the energy crisis and the pandemic.
- Q4.14 The majority of responses agreed with the introduction of a social tariff to protect low usage and vulnerable consumers. One respondent specified the need for extra protection for such consumers through tariffs with low or no standing charges.

### **Government, LGA and political responses**

- Q4.15 We received four responses to this question from various political groups.
- Q4.16 Most respondents recommended that costs such as network charges and policy costs should be removed from standing charges. Alongside responses from other groups, they suggested that a social tariff should be introduced to protect vulnerable consumers.
- Q4.17 One respondent proposed that Ofgem should consider the impact of the TCR changes on low usage consumers with the intention of minimising negative effects on vulnerable consumers and people living in low energy efficient homes.

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

- Q5.1 In our call for input, we noted that suppliers generally set their prices based on differences in network charges, creating regional differences in standing charges for electricity. For consumers on default tariffs, the level of the price cap varies by region reflecting regional cost differences.
- Q5.2 This means that the price reflects how much it costs to transport energy to those consumers and varies due to the complexity of the infrastructure such as demand and population density of different distribution network regions. This question sought to understand views on regional variations and the drivers behind it.

### **Supplier responses**

- Q5.3 We received nine responses to this question from suppliers or supplier representatives.
- Q5.4 The majority of supplier responses attributed regional variations in standing charges to regional variations in TNUoS and DUoS charges, which are then passed through to customers in their region.
- Q5.5 Costs were stated to vary significantly across the country because they reflected the different cost of the network and the population densities in each region. One supplier noted that changes to supplier charging methodologies such as the shift of network charges from volumetric to fixed had resulted in some consumers being more exposed to these costs than others.
- Q5.6 Another respondent noted that properties in rural areas are generally the least well insulated and most expensive to heat, and there are equity and distributional fairness issues with methodologies that result in higher standing charges for customers in these areas.
- Q5.7 Three suppliers suggested that Ofgem could act to eliminate regional differences through a form of cross subsidy between network operators or a levelisation mechanism similar to that used in Ofgem’s work on Prepayment Meters and Direct Debit.<sup>4</sup>

### **Networks and network group responses**

- Q5.8 We received four responses to this question from network companies.
- Q5.9 All respondents indicated that differing infrastructure and transport costs were the key driver of regional variations in DUoS charges. The costs associated with building and maintaining the network was said to vary across regions. Supply of energy to rural and remote areas requires more complex and extensive infrastructure therefore an increase in costs and subsequently standing charges are present. Another factor believed to result in regional differences in charges

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<sup>4</sup> [Decision on adjusting standing charges for prepayment customers | Ofgem](#)

was the variation in population density whereby areas of the network that are less populated faced higher charges.

### **Consumer group and charity responses**

Q5.10 We received twelve responses to this question from consumer representatives and charities.

Q5.11 Consumer and charity groups were of the view that regional variations in standing charges were unfair and the costs of national infrastructure 'should be borne more equitably'. Many believed that the variation imposed a premium on people living in rural and deprived areas.

Q5.12 These respondents also expressed shock at the fact that energy consumers in renewable energy producing regions faced higher network charges although they were net exporters of energy to the rest of GB. Ultimately, there were calls for a flat rate to be introduced across the GB network.

### **Government, LGA and political responses**

Q5.13 We received two responses to this question from various political groups.

Q5.14 One respondent explained that Northern Wales is penalised by regional variations, noting the region is home to large sources of affordable renewable energy, but it is exported to other parts of the national grid.

Q5.15 The other respondent said that if a regional standing charge rate is to continue, there should be flexibility within standing charges to reduce rates when there are enhanced community benefits. They made an example of the Scottish Highlands which has high levels of renewable energy production.

Q5.16 Both stakeholders agreed that it would be fairer to have a flat standing charge rate across the GB energy network.

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

Q6.1 In our call for input, we noted that some other regulated sectors use standing charges in billing, highlighting the water and telecommunications sectors as two examples. We asked stakeholders if the GB energy market can learn from other sectors or international energy markets, when considering how to ensure consumers access a wider range of tariff offers.

### **Supplier responses**

Q6.2 We received nine responses to this question from suppliers or supplier representatives.

Q6.3 Whilst some respondents noted that there were examples of fixed charges used in other sectors which are analogous to standing charges in energy markets, others expressed scepticism about whether these comparisons were relevant.

Q6.4 Five suppliers explicitly noted that the differences between sectors made relevant comparison with energy difficult. Two of these respondents highlighted the lack of a price cap in other sectors as a reason why comparisons were less relevant.

Q6.5 Many respondents made comparisons with other sectors, namely water and telecommunications. Two suppliers noted that water suppliers recover some costs through standing charges (typically around 10% of total cost). One of which highlighted that water was an "entirely regulated market" where suppliers had much more certainty about recovering their costs. Another supplier observed that social tariffs existed in the water sector, qualifying this by noting that this was 'imperfect and not appropriate for use as a blueprint due to the complexity of the energy market'. However, another supplier argued that in other sectors there did not seem to be the same expectation upon suppliers to deliver social welfare functions.

Q6.6 Two respondents noted that the broadband (telecommunications) sector is moving towards a model where fixed charges were more common. One supplier noted that this did not necessarily benefit consumers, citing the writing of annual price rises ( $x\% + RPI$ ) into contracts, and that lengthy fixed contracts with large exit fees were common in the sector. Another supplier agreed with observations within our call for input that the telecommunications market was moving towards

a model where charges are differentiated by the quality of service or amount of data sold in bundles, rather than a conventional standing charge.

### **Networks and network group responses**

Q6.7 We received two responses to this question from network companies.

Q6.8 Both respondents argued that whilst the energy market could learn from other sectors, there is not a single model that is directly applicable to the energy market. One respondent noted that innovation in the water sector was limited by the lack of competition, and that social tariffs (as used in water and telecoms) should be considered in energy with clear, well-defined tariffs for those less able to pay.

### **Consumer group and charity responses**

Q6.9 We received four responses to this question from consumer representatives and charities.

Q6.10 One respondent noted parallels between line rental in the telecommunications market and standing charges in the energy market, highlighting that the role of Openreach (a wholesale communication provider) as analogous to that of networks in the energy market. Another argued that there are parallels between the energy and water sectors in some ways but noted that “the performance of water providers in Great Britain is a cause for concern”. The same respondent noted that variable prices for consumers arising from regional network charges are a feature of other international energy markets, notably Denmark.

Q6.11 One respondent highlighted the existence of social tariffs in the water and broadband sectors, and that lessons learned in these sectors could be of benefit to the energy sector.

## **4. Standing Charges and the Domestic Retail Market**

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

- Q7.1 In our call for input, we explored some suppliers' tariff offerings, noting that some suppliers offered a low or zero standing charge tariff. The structure of multi-tier tariffs, known as 'rising block tariffs' recover equivalent costs from the first few units of energy used, which are charged at a higher rate. At the time of publication, such tariff offerings were limited, and we were keen to understand the reasons why.
- Q7.2 Some respondents noted that this question was substantially similar to Q1 and Q2; we have included responses to this question here.

#### **Supplier responses**

- Q7.3 We received seven responses to this question from suppliers or supplier representatives.
- Q7.4 Some suppliers argued that rising block tariffs would be confusing for consumers. One supplier indicated that they offered innovative products which help consumers manage their energy use, removing the need for multi-tier or zero standing charge tariffs. One supplier noted that there is little demand from customers for these products.
- Q7.5 Four respondents believed that tariffs with standing charges were cost reflective, and that to offer multi-rate or zero standing charge tariffs would risk under-recovery of costs. This echoed the views of several supplier respondents in questions one and two. One respondent noted that to offer multi-tier or zero rate tariffs would require suppliers to charge an additional risk premium.

#### **Consumer group and charity responses**

- Q7.6 We received two responses to this question from consumer representatives and charities.
- Q7.7 One respondent said that there is confusion for consumers on matters surrounding energy pricing. It was suggested that the industry increase its efforts

to ensure consumers understand tariffs and their options. They said that in the future, smart energy should prove a good source of innovation among tariff offerings.

Q7.8 Another respondent noted that the lack of tariff innovation was due to close mirroring of tariffs to the price cap. This meant that consumers were confined in a stagnant market, where there is little difference across suppliers.

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

Q8.1 In our call for input, we noted that there is no obligation on suppliers to offer a standing charge to their customers, and in the prepayment sector some suppliers offer a multi-tier tariff with no standing charge. The nil consumption cap level under the price cap represents the maximum annual cap level a supplier can charge a household with zero consumption. From this a supplier can work out the implied daily standing charge. However, this does not obligate a supplier to charge a particular amount. Through this question, we sought to discover the reasons for the limited zero standing charge offerings despite the liberties afforded to suppliers.

### **Supplier responses**

Q8.2 We received four direct responses to this question from suppliers or supplier representatives.

Q8.3 Those suppliers who responded directly to this question argued that the lack of zero standing charge tariffs is due to financial viability, and that under the price cap it was likely that suppliers would under-recover costs if they were to offer such tariffs. These respondents argued that standing charges are the fairest and easiest way to recover fixed costs.

Q8.4 One respondent argued that standing charges and tariff innovation was already in progress, and that implementation of Market-wide Half-Hourly Settlement (MHHS) would contribute to an increase in tariff offerings.

### **Consumer group and charity responses**

- Q8.5 We received seven responses to this question from consumer representatives and charities.
- Q8.6 Some of the responses from consumers and charities argued in favour of the rising block tariff. They believed that it would encourage high usage consumers to reduce their consumption while protecting lower usage consumers. Rising block tariffs would make it economically viable for consumers to make investments in energy efficient products which could reduce consumers overall bills. Others were less in favour, as delays in the smart meter rollout meant that the benefits were not there for all consumers.
- Q8.7 One respondent argued that rising block tariffs would result in a fairer energy billing system, with a stronger built-in incentive for energy efficiency, and a safety net against energy poverty for all. They however added that policy costs from standing charges would need to be funded via general taxation.

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

- Q9.1 Tariffs actively chosen by customers, such as fixed rate tariffs, are not subject to the price cap. Suppliers are free to set their standing charges and could choose to set a standing charge and unit rate, or to set standing charges at zero and recover all fixed costs through (higher) unit rates if they so desired. In both cases, it is a commercial decision made by suppliers. Through our call for input, we sought to identify actions that could be taken to encourage such tariff innovation.

### **Supplier responses**

- Q9.2 We received seven responses to this question from suppliers or supplier representatives.
- Q9.3 Suggestions through these responses can be categorised under five key themes. These include the removal or reform of the price cap, reform of network charges,



introduction of a social tariff, simplification of the supply licence condition and the rollout of smart meters.

- Q9.4 In advocating for the removal of the price cap, some suppliers drew attention to the fact that the price cap was introduced as a temporary measure. They believed that its erasure would drive a greater variety of tariff offerings. However, there were contrasting views amongst those that called for a reform, with some arguing that the price cap (and cost-reflectivity of standing charges) should be retained. This set was of the opinion that tariff offerings would increase should the price cap be amended to allow consideration for the cost of additional risk. Most recommendations for price cap removal or reform were accompanied by suggesting the introduction of a social tariff. This was proposed as a replacement for the price cap tariff, or to be introduced alongside tariff reform.
- Q9.5 Responses also referred to the importance of the smart meter rollout in meeting net zero ambitions and innovating tariffs. They stressed the need for all parties to work together in a coordinated manner to drive the roll out which could eventually help boost future green energy tariffs for consumers.
- Q9.6 One supplier asked for reform of the underlying makeup of network charges while another called for reassessment of what “healthy competition looks like” and simplification of supply licence conditions to improve tariff offerings.

### **Consumer group and charity responses**

- Q9.7 We received eight responses to this question from consumer representatives and charities.
- Q9.8 There was a mixed response from consumer and charity groups. There was a call from some respondents for the introduction of a social tariff as well as a reduction or removal of standing charges. However, other respondents supported using a standing charge, suggesting it be capped and moving SoLR costs to unit rates. This response also suggested that the TCR costs should be examined in more detail to better understand consumers’ future relationship with network costs.
- Q9.9 One respondent recommended that Ofgem expand the licence conditions so suppliers can increase the number of core tariffs for a specific tariff with a reduced or removed standing charge. This could give consumers more choice and, for certain consumers, reduce their costs. However, they did note that some

consumers would lose out through a lower standing charge due to increased unit rates. Another supplier agreed that offering better tariffs to low-income households would provide greater flexibility to consumers.

Q9.10 Three respondents called for a targeted approach in the form of a social tariff to protect low income and vulnerable households. Its importance was stressed especially in the wake of Energy Price Guarantee's (EPG) conclusion. Closely related to this was the request for an energy allowance whereby every household would be privy to a free amount of energy. This, according to the respondent, was supported by three quarters of the UK population.

Q9.11 Another respondent called on Ofgem to offer an average price cap for separate groups of consumers such as vulnerable, low income and electricity only consumers. Suppliers would decide which consumers would qualify. This was however underscored by the need to amend the price cap legislation.

### **Government, LGA and political responses**

Q9.12 We received three responses to this question from various political groups.

Q9.13 All respondents stated that Ofgem should act proactively to mandate suppliers to offer more tariffs for consumers. A social tariff was the most popular option. Respondents emphasised the importance that a mandated social tariff would have in supporting vulnerable consumers with high energy usage. On this note, a respondent suggested that suppliers should use consumer data to make sure that consumers are on the right tariff for their needs. There were also calls for a rising block tariff to be introduced alongside a social tariff.

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

Q10.1 In our call for input, we noted that rising block tariffs would offer significant benefit to low usage consumers and potentially incentivise consumers to reduce their overall energy consumption. Higher energy users would be compensated in part by the lack of a standing charge, but could end up paying more for their energy, especially as their marginal cost at higher levels of consumption could be materially higher. This could mean that simple rising block tariffs would not be suitable for some vulnerable customers with high energy consumption needs, or for customers with electric heating. In addition to these impacts, we wanted to

know what other reasons could exist for the lack of rising block tariffs as well as the market's perception of these tariff types.

### **Supplier responses**

Q10.2 We received ten responses to this question from suppliers or supplier representatives.

Q10.3 Almost all supplier respondents indicated that the benefits that rising block tariffs offered to consumers were unclear, and in some cases could be detrimental. Some respondents noted that rising block tariffs would penalise consumers with high energy needs, including vulnerable customers and those in poorly insulated homes.

Q10.4 Several respondents also expressed concern that rising block tariffs would lead to suppliers being unable to recover their costs and the scheme itself could only operate as a form of social policy, thereby requiring sustained intervention from government.

### **Consumer group and charity responses**

Q10.5 We received six responses to this question from consumer representatives and charities.

Q10.6 Some of these responses did not support rising block tariffs, noting it could lead to energy rationing or self-disconnections in order to avoid moving on to more expensive tariffs and, in doing so, affect the most vulnerable in society. Some responses did agree that rising block tariffs would be beneficial for consumers who use limited amounts of energy, however these responses still highlighted the risk for consumers with unavoidable high usage, which includes disabled people and people with medical conditions that require them to use electricity to run medical equipment or refrigerate medicines.

Q10.7 A potential solution suggested within these responses was to allow low-income consumers free access to a certain amount of energy, noting the possibility that providing fuel-poor consumers with a limited amount of free energy could alleviate some of the financial strain associated with moving into a more expensive tier of a rising block tariff.

Q10.8 One respondent was of the view that rising block tariffs were not profitable for suppliers and that Ofgem should mandate the offering of these tariffs. Further emphasising that consumers would only choose block tariffs if they were cheaper than the alternatives.

### **Government, LGA and political responses**

Q10.9 We received three responses to this question from various political groups.

Q10.10 One respondent explicitly asked for a block tariff system to replace standing charges. The benefit of such a tariff being that consumers would pay lower unit rates for essential energy usage, with progressively increasing rates for higher usage. In order to support vulnerable/low-income high usage consumers it was recommended that a social tariff be introduced alongside it.

Q10.11 The other two respondents supported rising block tariffs for non-domestic consumers but stated that it may be too complicated for domestic 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?**

Q11.1 In our call for input, we noted that shifting charging from unit-based to fixed charges may impact the incentives that customers have to use energy efficiently. Increasing the unit rate provides a stronger incentive to reduce energy consumption, whereas including costs within standing charges weakens incentives for customers to reduce consumption. We were keen to gauge the extent to which energy stakeholders agreed with this.

### **Supplier responses**

Q11.2 We received nine responses to this question from suppliers or supplier representatives.

Q11.3 Some respondents disagreed that standing charges had a significant impact on energy efficiency. Amongst this cohort included responses that believed that the overall cost of energy paid by the customer, rather than the standing charge,

drove consumer behaviour. Others perceived the negative implications that would arise if standing charges were removed as being more severe, with one stating that consumers with electric vehicles will end up paying more if these charges were included within unit rates. However, most respondents agreed that moving network charges to unit rates could disincentivise electrification.

Q11.4 Some responses highlighted that most policy costs are already volumetric for gas, as they are added into unit rates rather than standing charges.

Q11.5 Another respondent stated that rebalancing gas standing charges could have a clearer benefit to emissions reductions than rebalancing electricity standing charges. There were calls for Ofgem to rebalance legacy policy costs to improve price signals for decarbonisation.

### **Networks and network group responses**

Q11.6 We received one response to this question from network companies.

Q11.7 The respondent agreed that high standing charges disincentivised consumers from being energy efficient, due to the costs being fixed and remaining constant.

### **Consumer group and charity responses**

Q11.8 We received thirteen responses to this question from consumer representatives and charities.

Q11.9 Several respondents believed that standing charges reduced consumers incentives to use energy efficiently. Others indicated that some consumers were self-rationing due to the increased costs, and that the transfer of charges to unit rates would push people further into fuel poverty and could drive more extreme forms of self-rationing.

Q11.10 One respondent said that standing charges prevent low-income households from achieving a level of consumption suitable for health and wellbeing and contribute to fuel poverty. Another respondent explained that the current structure of cost recovery helps incentivise overconsumption by higher income households.

Q11.11 Another respondent suggested that standing charges be used as a tool to rebalance costs from electricity to gas, which could reduce bills of some

consumers. They articulated that this could make consumers look to alternative forms of electricity such as solar panels.

### **Government, LGA and political responses**

Q11.12 We received three responses to this question from various political groups.

Q11.13 All three responses referenced the correlation between high standing charges and a declining consumer interest in improving energy efficiency. According to respondents, any percentage reduction in energy use as a result of energy efficiency measures is not fully reflected in lower energy bills. This factor is of particular concern for lower consumption households as standing charges form a larger proportion of their energy bills than those of higher users.

### **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?**

Q12.1 In our call for input, we noted that any interventions made on standing charges would have different impacts across income groups. We considered that lower-income consumers would value a reduction in their energy bills more than higher-income consumers and this should be reflected when deciding potential policy options. We recognised that whilst there is an association with income or wealth and consumption of energy, it does not necessarily follow that lower income households have the least need for energy consumption. In particular, some customers with particular types of disabilities may be high consumers of energy relative to their peers, and other types of vulnerability may also increase demand for energy (for example through increased heating demand).

Q12.2 We noted that these households would be adversely affected by a move from standing charges to volumetric charging, so it is important that we consider their needs. Where considering regional differences, we clarified that we expect all regions to contain a mix of customers across all archetypes, and therefore the geographical impact of a hypothetical transfer of costs from standing charges to unit rates would be less pronounced than across income groups. Through responses to this question, we hoped to identify any other considerations essential to a positive consumer outcome.

### **Supplier responses**

- Q12.3 We received eight responses to this question from suppliers or supplier representatives.
- Q12.4 Many respondents argued for a social tariff which would be tailored towards supporting the most vulnerable consumers, and some specified it was best funded via general taxation.
- Q12.5 Suppliers also held contrasting views regarding whether a social tariff should be introduced alongside the price cap or whether it should replace it all together. Arguments for the latter believed that alternatives to standing charges have downsides, as the main issue is the overall cost of energy.
- Q12.6 Other interventions proposed by this group include greater transparency on the impact of cost recovery, transfer of network costs and green levies from standing charges to direct taxation, regional levelisation, limitation of inflation of standing charges to the Retail Price Index (RPI), and the placement of premium risk unto DNO's rather than the retail sector.

### **Consumer group and charity responses**

- Q12.7 We received nineteen responses to this question from consumer representatives and charities.
- Q12.8 The interventions proposed include introducing a fixed network charge per year, reallocation of standing charges to unit rates, removal of or exemptions to standing charges, introduction of a social tariff, and a mandate for suppliers to offer zero or low standing charge tariffs.
- Q12.9 Many responses articulated support for standing charges to be recovered on a volumetric basis, rather than a fixed value per meter point. This was accompanied by a suggested cap to the amount of standing charge that could be recovered.
- Q12.10 The social tariff was the most popular intervention cited for protecting vulnerable high usage consumers from experiencing higher standing charges. Some respondents called for it to be introduced alongside a reformed price cap. While most respondents agreed that in introducing a social tariff, Ofgem would be

protecting the most vulnerable high usage consumers from high standing charges.

Q12.11 The reallocation of standing charges to unit rates was supported in many responses, with some suggesting that this support should be targeted at consumers with prepayment meters. Some felt it was unfair for prepayment consumers to pay a standing charge for gas when they did not use it during summer months.

### **Government, LGA and political responses**

Q12.12 We received six responses to this question from various political groups.

Q12.13 Many respondents called on Ofgem to introduce a social tariff. One respondent said that a social tariff would support low-income households and help protect them from rising costs including changes to the standing charges. They urged Ofgem to consider how such a tariff could be used as a mitigating measure alongside standing charges reform.

Q12.14 One respondent called for consumers to get a basic free energy allowance and that they only get charged for energy once they hit a threshold. However, other responses questioned the purpose of standing charges and highlighted their impact on the most vulnerable consumers. They said a social tariff was the only way to support vulnerable consumers, as they believed that shifting costs to volumetric unit prices would negatively affect low-income households with high consumption needs.

### **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?**

Q13.1 In our call for input, we provided an indication of how different types of customers would be affected by a hypothetical transfer of charges from standing charges to unit rates. Through our call for input, we sought to gather stakeholder opinions on the range of options or mechanisms through which vulnerable consumers and their complex needs may be identified.



### **Supplier responses**

- Q13.2 We received nine responses to this question from suppliers or supplier representatives.
- Q13.3 Many respondents called on Ofgem to work with Government to develop a progressively treasury-funded social tariff to sit alongside the price cap. They argued that rather than intervening on standing charges, they believe a social tariff would be the most appropriate mechanism to support consumers in need of bill support.
- Q13.4 Some respondents requested that Ofgem work with Government and other sectors to better collect vulnerability data on consumers so that the complex needs of vulnerable customers are identified effectively. One respondent said that the Department of Work and Pensions (DWP) data was used for the Warm Homes Discount (WHD) scheme and may be useful in assessment of the complex needs of vulnerable customers.
- Q13.5 One respondent argued that a register for vulnerability in energy sector is an honour system and there are no eligibility checks. To create a system whereby vulnerable consumers benefit financially from a special tariff would undermine the current energy honour system. They added that using existing government data to identify vulnerable customers would be simpler and more straightforward to enhance the existing WHD.

### **Networks and network group responses**

- Q13.6 We received one response to this question from network companies.
- Q13.7 This respondent explained that it needs to be decided by the regulatory bodies if fuel poor and vulnerable customers should receive extra support and to which vulnerable customers any support should apply.
- Q13.8 They also indicated that DNOs and suppliers identify vulnerable customers, including through a Priority Service Register (PSR). Those customers are categorised into high, medium, and low needs based on their circumstances and in accordance with a common industry list.

### **Consumer group and charity responses**

Q13.9 We received seventeen responses to this question from consumer representatives and charities.

Q13.10 Many respondents suggested that Ofgem should use the PSR and data from government departments such as the DWP and His Majesty's Revenue and Customs (HMRC) to identify vulnerable consumers. They also called for suppliers to be mandated to use smart data and customer billing to explore offering more support to consumers.

Q13.11 One respondent explained their organisational experience to indicate that vulnerable consumers can at times be unlikely to proactively seek advice or to switch tariffs or providers. Additionally, they may have literacy issues that make accessing information challenging.

Q13.12 One respondent advocated for greater levels of engagement between Ofgem and the Regulator for Social Housing as it could present a pathway to identifying the complex needs of vulnerable consumers. According to this response, under forthcoming consumer standards in the social housing sector, social landlords will be required to collect and retain information on the service needs of their residents.

### **Government, LGA and political responses**

Q13.13 We received four responses to this question from various political groups.

Q13.14 Half of these respondents supported suppliers using the PSR as a tool to identify consumers that need the most support. They cited that suppliers have experience of administering schemes which support vulnerable and low-income consumers such as the Energy Company Obligation (ECO) schemes. They also said suppliers already have access to data matching services which can identify residents in receipt of income related benefits.

Q13.15 One respondent stated that further analysis was needed on gender and ethnicity including minority ethnic groups, lone parents, the elderly, and people who are long term sick and disabled. They explained that understanding how different characteristics shape the impact of changes in standing charge rates on different groups is essential.

## **5. Standing Charges in the Non-Domestic Retail Market**

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

Q14.1 In our call for input, we noted that non-domestic customers have usage profiles that can range from very similar to domestic users, to hundreds of thousands of kilowatt hours per year.

Q14.2 Non-domestic consumers are also not protected by some of the consumer protections afforded to domestic consumers, including the retail price cap. The lack of a price cap means that non-domestic consumers have been particularly adversely affected by the recent wholesale energy crisis.

Q14.3 Through our call for input, we sought to identify various perspectives regarding standing charges and associated elements in the non-domestic retail sector.

#### **Supplier responses**

Q14.4 We received ten responses to this question from suppliers or supplier representatives.

Q14.5 Supplier responses highlighted the changes following the TCR as a cause for non-domestic consumers seeing a significant rise in standing charges. One response noted that the non-domestic market is not subject to retail price protection therefore, they see no case for limiting commercial freedom. The mechanics of the TCR was also referred to as having disproportionately impacted some businesses with relatively low consumption.

Q14.6 Two supplier respondents said that moving non-domestic costs from standing charges to unit rates increased the risk to suppliers.

Q14.7 Two respondents highlighted that they didn't believe there to be any issues for consideration relating to standing charges in the non-domestic market. One of these responses noted that there was no evidence for any interventions to be made for standing charges in the non-domestic market, while the other was not aware of any specific material issues affecting standing charges in this sector. This responded also highlighted that they were not aware of any insight that

reflects that non-domestic customers have taken issue with the concept of standing charges.

Q14.8 There was support from some suppliers for Ofgem to be more transparent about its expectations around the future trajectory of how fixed system costs are to be recovered from demand for non-domestic consumers. This would help consumers to understand why standing charges have been increasing and manage their expectations for the future as we work to deliver net zero.

### **Networks and network group responses**

Q14.9 We received four responses to this question from network companies.

Q14.10 There were suggestions made throughout these responses that could reduce the impact of the TCR on non-domestic consumers standing charges. This included increasing banding segmentation on standing charges, so that there are more charging bands which better represent the consumer usage within them. The view being that this would more fairly distribute the costs of upgrading the network. One respondent said that there would be considerable challenges in attempting to replicate any solution regarding standing charges from the domestic sector to the non-domestic sector and it is not a viable proposition.

Q14.11 One response highlighted a suggestion to support non-domestic consumers by decreasing the impact on those generating renewable energy from the increases in standing charges through a form subsidy or reduction. Another response spoke on simplifying the standing charge mechanism, suggesting that standing charges should be static across the majority of suppliers, set based on the level of energy their customers require.

### **Consumer group and charity responses**

Q14.12 We received five responses to this question from consumer representatives and charities.

Q14.13 Many respondents asked for Ofgem’s non-domestic market proposals (for which Ofgem published a decision in April 2024) to focus on standing charges for businesses and commercial entities.<sup>5</sup> There were calls for Ofgem to review how

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<sup>5</sup> [Non-domestic market review: decision | Ofgem](#)

standing charges impact non-domestic residential households, like park home and care home residents.

Q14.14 Many respondents stated that local businesses were being subjected to higher costs. One response highlighted the importance of stability and predictability in prices for businesses, and lamented the challenge being faced due to large variability in out-of-contract standing charges between suppliers.

Q14.15 One response argued for an improvement to the competitive constraint on suppliers by requiring improvements in customer engagement through increased price transparency and easier comparison of contracts. There were calls for lower consumption to be encouraged in order to reduce emissions and improve energy security, which was suggested to be achieved through increases in unit rates and reductions in standing charges.

### **Internal drainage board responses**

Q14.16 As mentioned in paragraph 1.21, we received responses from a subset of non-domestic consumers, various internal drainage boards. These responses mirrored other responses to this question as they specifically spoke on the impact of the TCR. These responses highlighted the importance of the drainage boards as their pumping stations are essential infrastructure which help to prevent and alleviate flooding. The increases in standing charges were described as significant and unaffordable for local authorities.

## **6. Conclusion and next steps**

- 6.1 As set out in this summary of responses document, a wide range of views have been put forward following our call for input. These views demonstrate an appetite for change while also highlighting the risks to be considered in any changes that are made in the future. Throughout the responses received, it was evident that there is a considerable variety in perceptions, as some groups support the current arrangements on standing charges, and others were heavily in favour of abolishing this method of fixed cost recovery.
- 6.2 Ofgem will continue to review the evidence gathered and follow up with stakeholders where appropriate as we consider next steps for future price protection.
- 6.3 As mentioned at the beginning of this document, we are publishing an options paper on standing charges in the domestic retail market, which discusses reducing domestic standing charges by moving some charges to the unit rate (via the operating costs review) and further consider options to increase consumer choice by increasing the diversity in standing charges offered by suppliers. We also lay out longer term considerations relating to the assignment of network costs as a part of a broader review of how electricity and gas system costs are recovered from users.