

Ofgem: Standing charges domestic retail options

A response from Scope

September 2024

Scope welcomes the opportunity to respond to this consultation¹. Ofgem, the energy market regulator, launched it to explore reforming standing charges. This consultation outlines different options for reform. The main proposal is to shift between £20 to £100 of daily standing charge costs into volumetric (unit costs) on customer energy bills. Ofgem is requesting input on this and its wider proposals.

Key points

- We cautiously support a shift of £20 to £100 of standing charges into unit costs. Our support is subject to better analysis of the impact alongside mitigations for those negatively affected.
- Disabled households spend more on energy than non-disabled households and often have to power expensive equipment.
- Roughly 8% of the average disabled household's income is spent on energy bills. For non-disabled households it's 6%.
- Ofgem should mitigate the impact of standing charge reform by providing targeted exemptions from volumetric standing charges for disabled people on lower incomes with higher energy use.
- Reform would be safer if it was matched by improved affordability support for disabled people with higher energy needs.
- This must include a discounted energy bills scheme (or social tariff) to provide disabled households with affordable tariffs.
- Scope is also calling on the Government to add disability benefits to eligibility for Core Group 2 of the Warm Home Discount (WHD).
- Ofgem's analysis must use a broader definition of disability, such as the 2010 Equality Act definition. Relying on receipt of disability benefits as a proxy for all disability excludes millions of people.
- Before implementing standing charge reform Ofgem must ensure it does a comprehensive analysis of the impact for disabled people on low-incomes with high energy needs.
- Standing charges cause problem debt for many disabled people. Part of this reform must include a 'help to repay' scheme.

Context

Scope recognises the importance of standing charge reform and welcomes Ofgem's commitment to reviewing the options. At the same time, shifting daily fixed standing charges into volumetric charges would put a heavier price burden on some disabled people. This would be especially true for medical equipment users. Ofgem has the backing of the Government to reform standing charges. But we are keen to ensure the changes improve the situation for disabled people and avoid making it worse.

While we cautiously support Ofgem's proposal to move some operational costs into volumetric instead of daily standing charges, our support is subject to several other changes. Firstly, we need Ofgem to better define disabled people for this analysis and do a comprehensive impact assessment of the effect on disabled people, especially high energy users on lower incomes². Secondly, we want to ensure any high energy using disabled household on a lower income is offered protections to ensure they benefit from these changes instead of being faced with steeper bills.

These mitigations are key because life already costs more if you are disabled. On average disabled households³ need an additional £1,010 a month⁴ to have the same standard of living as non-disabled households. This is even when accounting for benefit payments such as Personal Independence Payment (PIP). Energy bills are a key driver of these extra costs. Disabled households spend more on energy than non-disabled households. Roughly 8% of the average disabled household's income is spent on energy bills. For non-disabled households its 6%⁵. Department for Energy Security and Net Zero (DESNZ) figures show 17% of disabled households are in fuel poverty compared to 11% of non-disabled households⁶. Disabled households make up half of all fuel poor households in England⁷.

There are many reasons why disabled people use more energy. Some need to use more heating because they cannot regulate their body temperature. Some need to charge equipment like electric wheelchairs. Others need life-saving machines like ventilators to breathe, or dialysis machines. These costs cannot be avoided and result in many disabled people struggling to heat their homes and falling into debt.

In 2023, 52% of clients assessed by our Disability Energy Support (DES) service were in debt to their supplier. In the first eight months of 2024

this has risen to 57%. The yearly average owed in 2023 was £1,103; this figure now stands at an all-time high of £1,341 (January – August 2024). August 2024 has seen the highest average monthly client debt on record, at £2,692⁸.

While Scope is unable to break these figures down to assess how much of this is standing charge debt, we know that it plays a role for many. We are also concerned about disabled people in debt who are struggling to afford to power their essential equipment. Many clients reported that they were struggling to keep their medical equipment on. Others are forced to ration their use of electric wheelchairs. This has devastating consequences for health and wellbeing.

Standing charges

Standing charges sit alongside unit costs as the two core components of gas and electricity bills. Unit costs are the price paid per unit (kWh) of energy consumed. Standing charges represent a static daily charge on customer bills which suppliers levy to cover their fixed costs (e.g. policy, infrastructure, and network expenses). Customers are charged a daily fixed amount regardless of how much energy they use. Ofgem does not mandate suppliers to levy a standing charge, but these charges are almost universal across the tariff market. Standing charges fall more heavily onto electricity than gas bills. They also continue to accrue as debt even if you stop using energy.

The typical annual standing charge for a dual fuel customer is now £334⁹. This is close to double what it was in October 2021 (£186). Increased electricity network costs are the key driver of this rise¹⁰.

What is being proposed

Ofgem is reviewing several options for change. The key proposal is to move some operational costs from daily standing charges into volumetric (unit based) costs. The regulator proposes a range of between £20 to £100. This represents between 6% and 30% of standing charge costs, much lower than the 50% proposal suggested in last year's call for input¹¹.

They have indicated this would be a progressive change, with more lower income customers benefiting than losing out. But for many

disabled people on lower incomes with higher energy needs this change could increase their bills.

Ofgem is also considering increasing the diversity of tariff options. It is keen to see suppliers offer a range of tariff options which include low or no standing charges. Ofgem is also looking into options to smooth costs for prepayment meter (PPM) customers. We support Ofgem's efforts to investigate this and recommend the regulator look at more fundamental reform of standing charges for people paying by PPM.

Ofgem is also reviewing the longer-term future of standing charges. Part of this involves reviewing the Targeted Charging Review (TCR) decision. The TCR resulted in large volumes of electricity network costs being moved from a unit cost basis to a fixed basis¹². Scope welcomes Ofgem's review of this decision, subject to Ofgem heeding our reservations for the existing proposal. These are outlined below and in response to Ofgem's specific questions.

Consequences of reform for disabled people

Ofgem has reduced the scale of its initial reform proposals from 50% to between 6% and 30%. Whereas before the regulator was proposing to shift half of all standing charges into volumetric charges, now it will be less than a third.

Around 3.8 million lower income households will gain from this policy change (reduction of their annual bill of between -£4 and -£19). Around 2.4 million will lose out (increase in annual bill of between +£4 and +£18). The change would be progressive overall.

While the regulator rightly recognises that many lower income disabled people stand to benefit from these proposals it also cites the fact that they are slightly more likely to lose out¹³. This analysis is by no means comprehensive. While table A7 of the consultation¹⁴ does provide an example of the impact on a medical equipment user, Ofgem has not undertaken a full distributional analysis of the impact for disabled people.

Disabled people not fully accounted for

Ofgem has proposed these reforms without backing them with comprehensive analysis of the impact on disabled people. We call on

the regulator to have proper regard for its Public Sector Equality Duty¹⁵ and its explicit statutory duty towards disabled people¹⁶ and fully evaluate the impact for disabled people. We would be happy to work with the regulator to investigate this in more detail.

We are concerned Ofgem's consumer archetypes and wider analysis do not fully account for disabled people on lower incomes with very high energy use. This includes many thousands of disabled people using medical equipment.

Much of Ofgem's analysis has relied on disability benefits as a proxy for whether someone is disabled. This is a major oversight. As our own calculations show¹⁷, a significant proportion of disabled people¹⁸ do not claim disability benefits. We found that:

- Only 23.5% of working age people who have a disability under the 2010 Equality Act claim Personal Independence Payment (PIP) or Disability Living Allowance (DLA).
- Only 43.3% of working age people who have a disability, and report that this condition 'impacts them a lot', claim PIP or DLA.

To be clear, not all disabled people under the Equality Act definition would be eligible for disability benefits. But by only focusing on disability benefits receipt as a proxy for disability millions of disabled people have been excluded from this analysis. Ofgem must expand its definition of disability.

We also need more detail on what happens to lower income disabled people with high energy needs. The lack of a comprehensive definition and analysis only reinforces the importance of mitigations for disabled people to avert any unintended consequences of these changes.

Mitigations for lower income high energy users

While we welcome reform it must come with mitigations for disabled people. Whether it is 6% or 100% of standing charges that are moved to unit rates some disabled people risk losing out. This must be acknowledged, and protections put in place.

Scope firmly supports the introduction of a discounted energy bills scheme to provide disabled households with affordable tariffs¹⁹. We will continue campaigning for this. Ofgem and the Department for Energy

Security and Net Zero (DESNZ) must work towards implementing this as soon as possible. This social tariff²⁰ must be universal across suppliers, targeted at all disabled people, and provide a meaningful discount on bills. Eligibility must include recipients of disability benefits, including Personal Independence Payment (PIP), Disability Living Allowance (DLA), and Attendance Allowance (AA). But it is crucial that disabled people who do not receive disability benefits are also able to access the social tariff.

“Disabled people need a social tariff. Without the monthly cost of living support we will be cold. I'm no longer eligible for the Warm Home Discount”. Anonymous, North Norfolk.

We are also calling for the Warm Home Discount (WHD) to include disability benefits as eligibility criteria for its Core Group 2. 290,000 disabled households lost this vital support due to changes in eligibility criteria in 2022²¹. Adding these benefits to Core Group 2 will go a long way towards reinstating the Discount for them and many others. WHD support also remains at just £150 despite energy prices spiralling in recent years. This must be increased to better reflect higher prices. We also recommend that disability industry initiatives be better funded, to ensure more disabled people can receive support. Ofgem and the Government must also work together to introduce a ‘help to repay’ scheme to help tackle the mountain of debt faced by disabled people.

With a social tariff in place and an expanded WHD, standing charge reforms would be far more manageable for disabled people. Without affordability reforms there is a risk the situation gets harder for some. We however recognise that Ofgem is limited in its ability to unilaterally introduce a social tariff or make changes to the WHD. Scope’s efforts in this space will therefore continue to focus on the Government.

We are however keen for Ofgem to recognise that it does have options it can deploy to better protect disabled people impacted by these changes. Disabled people on lower incomes must be supported if they are suddenly faced with higher volumetric costs.

Ofgem should consider replicating the principles of the WaterSure scheme in the water sector. This Scheme protects some high usage households from continually paying higher water bills by mutualising the costs across the market when someone is unavoidably faced with higher bills. Disabled people on lower incomes with higher energy needs who

face unavoidably higher bills could have a limit on their bill so they never have to pay more than a defined amount for energy per year.

We recognise this would come with higher mutualisation costs for the wider market. A potential alternative would be if the regulator considered a ceiling on the annual amount any lower income disabled household is expected to pay towards supplier fixed costs. This would mean that there is a ceiling on volumetric standing charges. This intervention would stop volumetric standing charge costs from continually spiralling for people on lower incomes with higher energy needs.

Ofgem must also be mindful that moving to volume based standing charges will further concentrate energy costs during the winter months. Right now, standing charges unintentionally smooth the price of fixed costs throughout the year. Moving them to volume based will concentrate these costs during higher volume periods like the winter. This only reinforces the need for a social tariff.

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

Ofgem is right to review standing charges. We welcome their commitment to assess the options. This is particularly important for disabled people on lower incomes with lower energy usage.

“My savings are dwindling and after this winter I will have no safety net left and even may have debt. Food prices have hit people like me with special dietary requirements hard and with fuel costs high too it's a massive shock”. Anonymous, Isle of Wight.

The situation is particularly dire for PPM users. For those who feel forced to fully turn off their electricity and gas they still accrue standing charge debt. This means before they can switch back on their heating and power they are made to pay off this debt. We often hear that standing charges are seen as confusing, unfair, and punitively expensive.

At the same time, standing charges have two main positive effects for disabled people. Firstly, daily standing charges protect low-income high-energy users from paying more on their unit rates. This includes many disabled people, particularly those using electricity intensive medical equipment.

Secondly, standing charges spread the fixed costs of supply throughout the year. Because standing charges levy the fixed costs of delivering the electricity and gas grid throughout the year, these costs are not generally concentrated over the winter. For unit rates the opposite is true as energy demand rises in the winter. If standing charges were entirely volumetric, seasonality would mean that fixed costs would be more heavily concentrated during the coldest periods. Our recommendation is that Ofgem expand its present annual impact assessment and look at the quarterly impact of its proposals too.

With these caveats in mind, Scope cautiously welcomes Ofgem's case for change. We know that standing charges cause a lot of problems for many disabled people. At the same time, we need the regulator to understand that reform will come with costs for many. That's why we have called for mitigations. We will focus our efforts on the Government to secure an energy social tariff and expand Warm Home Discount (WHD) eligibility.

“Disabled people need a social tariff. Without the monthly cost of living support we will be cold. I'm no longer eligible for the Warm Home Discount”. Anonymous, North Norfolk.

Ofgem must do all it can to ensure reform benefits disabled people. At minimum the regulator must expand its impact assessment definition of disabled people. It must go beyond just disability benefit recipients. Otherwise, it misses out on evaluating the impact for most disabled people (see introduction for more details). This makes it difficult for us to fully assess whether standing charge reform is appropriate.

Ofgem should also look to mitigate the impact of this change. The regulator should consider replicating the targeted exemption principles of the WaterSure scheme. This water sector Scheme protects some high usage households from continually paying higher water bills by mutualising the costs across the market when someone is unavoidably faced with higher bills. We believe a similar principle should be applied in the energy market for high energy users on lower incomes, especially if they are using at home medical equipment. While there are some schemes designed to support medical equipment users, they are defined too narrowly, and many people still miss out. Alternatively, the regulator could consider a ceiling on the annual amount any lower income disabled household is expected to pay towards supplier fixed costs (see mitigations section of our introduction).

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

Ofgem's previous proposal was to shift 50% of standing charge costs into volumetric costs²². The new range of between £20 to £100 represents between 6% and 30% of standing charge costs. This change does reduce the risk of these proposals harming disabled people on lower incomes with higher energy needs. But it also reduces the benefit for lower income households with lower energy needs.

As stated, Scope cautiously supports reform of standing charges but only if it is done in a way which accounts for disabled people and provides them with mitigations. We are not going to propose a precise figure that the regulator should aim for, as we do not have sufficient information on the impact for disabled people (see our introduction for more details). But we would encourage the regulator to provide meaningful reform and mitigations to ensure this change provides maximum benefit for disabled people.

Q3: What are your views on the trade-offs and impacts we have identified for consumers and suppliers? Should any of these take more or less significance in our assessment, and are there any important impacts we have not considered?

Scope agrees that shifting standing charges onto unit rates without mitigations could increase costs for some disabled people. We strongly encourage the regulator to give greater significance in its analysis to the impact on disabled people.

Based on the archetypal analysis provided by Ofgem²³, the true impact on high-usage, low-income disabled consumers remains unclear (see our introduction). We encourage the regulator to provide a more inclusive definition of disabled people and to fully assess the impact of these changes on us.

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

We would welcome this addition to the market. We do however recommend that Ofgem analyse the impact and cost benefits or detriment of low or no standing charge tariffs against existing fixed and standard variable tariffs. Promotion of competition and of consumer take-up could be improved through transparency around the purpose and role of standing charges.

If Ofgem makes it mandatory for suppliers to offer a low or no standing charge tariff, then it must be made clear that they must also still offer alternatives with higher standing charges and lower unit rates. It is particularly important that suppliers do not immediately shift to only offering a standard variable tariff with no standing charges. This is because some customers will still benefit from standing charges being higher and unit rates being lower on their tariff (for example, some medical equipment users).

Q7: In enabling greater diversity in standing charges on default tariffs, what, if any, safeguards would be needed to protect vulnerable consumers?

We encourage affordability safeguards (see introduction and response to question 1) but we also recommend additional customer service support. All suppliers should have easy-to-understand, accessible standing charge and unit rate information available at key market touchpoints. This must include supplier websites, switching tools, and offline materials (for example, customer bills). Clarity around standing charge and unit rate costs would help consumers to better understand different tariffs, and safeguard them against selecting a tariff that may be more costly due to higher unit rates.

Ofgem should also ensure suppliers provide customer service training on standing charges and unit rates to advisors. When customers contact their supplier speaking to someone who understands those charges could prevent them from selecting a more expensive tariff.

Ofgem should also evaluate the impact of introducing more low and no standing charge products into the energy market. This must include evaluating the impact on disabled, low-income, high-usage households.

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

In principle, we agree with there being an option to vary standing charges to account for seasonal variation in energy consumption across different periods. This could help smooth some of the seasonality effects we have previously outlined (see introduction) where many people need more energy over the winter. However, Ofgem will still need to ensure that it evaluates the impact of higher standing charges in the summer.

Scope is increasingly concerned about a recent trend in higher debt for disabled people during warmer periods. In August our DES service witnessed its highest ever average monthly client debt level of £2,692. Many disabled people still need to heat their homes in the summer months and power expensive equipment like dialysis machines and electric wheelchairs. Any shift to higher summer standing charges should be optional for customers and fully evaluated by Ofgem.

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About Scope

We're Scope, the disability equality charity in England and Wales. We won't stop until we achieve a society where all disabled people enjoy equality and fairness. At home. At school. At work. In our communities.

We're a strong community of disabled and non-disabled people. We provide practical and emotional information and support when it's needed most. We use our collective power to change attitudes and end injustice.

We campaign relentlessly to create a fairer society. And we won't stop until we achieve a society where all disabled people enjoy equality and fairness.

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- ¹ Ofgem, 2024. Standing charges: domestic retail options. Ofgem. https://www.ofgem.gov.uk/call-for-input/standing-charges-domestic-retail-options?utm_source=linkedin&utm_medium=ofgem&utm_term=&utm_content=&utm_campaign=
- ² We define lower incomes as households below the threshold of 60% of median household income after housing costs
- ³ Defined as a household with at least one disabled adult or child.
- ⁴ Scope (2023), Disability Price Tag, <https://www.scope.org.uk/campaigns/disability-price-tag>
- ⁵ Scope (2023), Extra burden of energy among disabled households, <https://www.scope.org.uk/campaigns/research-policy/extra-burden-of-energy-disabled-households/>
- ⁶ DESNZ, 2024. Fuel poverty detailed tables 2024 (2023 data). Department for Energy Security and Net Zero. <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2024-2023-data>. Detailed tables, Table 26.
- ⁷ DESNZ, 2024. Fuel poverty detailed tables 2024 (2023 data). Department for Energy Security and Net Zero. <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2024-2023-data>. Detailed tables, Table 26.
- ⁸ For this average we used the mean and there were outliers with very high debt levels. For completeness, the median figure was £1,459. For August 2024 we had 75 people who had an assessment via our DES service. 35 of these were in debt and also provided their debt level, which we used to devise this debt amount figure.
- ⁹ Ofgem, 2024. Standing charges: domestic retail options. Ofgem. https://www.ofgem.gov.uk/call-for-input/standing-charges-domestic-retail-options?utm_source=linkedin&utm_medium=ofgem&utm_term=&utm_content=&utm_campaign=. Pg10.
- ¹⁰ Ofgem's decision during the Targeted Charging Review (TCR) was a key component of this rise. This Review took the decision to move charging of certain types of electricity network costs from a unit cost basis to a fixed basis. See: <https://www.ofgem.gov.uk/decision/targeted-charging-review-decision-and-impact-assessment>
- ¹¹ Ofgem, 2023. Standing Charges Call for Input. Ofgem. Available at: <https://www.ofgem.gov.uk/publications/standing-charges-call-input>.
- ¹² Ofgem, 2019. Targeted Charging Review: Decision and Impact Assessment. <https://www.ofgem.gov.uk/decision/targeted-charging-review-decision-and-impact-assessment>
- ¹³ Ofgem, 2024. Standing charges: domestic retail options. Ofgem. https://www.ofgem.gov.uk/call-for-input/standing-charges-domestic-retail-options?utm_source=linkedin&utm_medium=ofgem&utm_term=&utm_content=&utm_campaign=. Pg55.
- ¹⁴ Ofgem, 2024. Standing charges: domestic retail options. Ofgem. https://www.ofgem.gov.uk/call-for-input/standing-charges-domestic-retail-options?utm_source=linkedin&utm_medium=ofgem&utm_term=&utm_content=&utm_campaign=. Pg57.
- ¹⁵ MoJ, 2012. Public Sector Equality Duty. Ministry of Justice. Available at: <https://www.gov.uk/government/publications/public-sector-equality-duty>.

¹⁶ See section 3A: UK Parliament, 1989. Electricity Act 1989. UK Parliament. Available at: <https://www.legislation.gov.uk/ukpga/1989/29/section/3A>. [Accessed 05/09/23]. Section 3A.

¹⁷ Scope analysis of the Family Resources Survey (FRS) 2021/2022. The data is reported to include legacy DLA payments to be more accurate. We recognise it is difficult to assess how many of these disabled people would be eligible in practice, so we have provided estimates under a range of scenarios. This was done to mirror eligible criteria.

¹⁸ Our analysis was deliberately restricted to just working age adults who were resident in England or Wales for at least 2 years and not receiving any exclusionary benefits.

¹⁹ Scope, 2024. An equal future: A manifesto for change. <https://www.scope.org.uk/campaigns/manifesto-for-an-equal-future/>. Page 11.

²⁰ For more details on social tariffs see: Fabians, 2024. Cost Cutters: A Plan to Tackle the Poverty Premium and Make Markets Work. <https://fairbydesign.com/wp-content/uploads/2024/04/Cost-Cutters-report-Fabians-FBD.pdf>. See also: Age UK, 2023. Keeping the lights on: The case for an energy social tariff. <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/age-uk-energy-public-policy-report-march-2023.pdf>.

²¹ BEIS, 2022. Warm Home Discount Final Impact Assessment. https://assets.publishing.service.gov.uk/media/6246b816d3bf7f32b11f1f7b/Warm_Home_Discount_reform_final_stage_Impact_Assessment.pdf, Page 29.

²² Ofgem, 2023. Standing Charges Call for Input. Ofgem. Available at: <https://www.ofgem.gov.uk/publications/standing-charges-call-input>.

²³ Ofgem, 2024, Standing Charges: domestic retail options https://consult.ofgem.gov.uk/energy-supply/standing-charges-domestic-retail-options/supporting_documents/standing_charges_domestic_retail_options.pdf, Pg48