

Submitted to Standing charges: domestic retail options
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Case for change

1 Do you have any views on our case for change?

Please use this text box to tell us about any views you have on our case for change.:

We acknowledge that the cost of energy has disproportionately impacted low-income households, especially those in energy debt or on prepayment meters. These groups are less able to manage the increasing energy burden due to rising standing charges. From a debt and affordability perspective, we strongly agree with the need for reform to make energy bills fairer and to help vulnerable consumers have more control over their costs. We believe that the current system of standing charges, regardless of usage, places an undue financial strain on low-usage, low-income consumers.

While we appreciate that standing charges help recover fixed system costs, the proposed changes to reallocate some operating costs to the unit rate could alleviate pressure on the most vulnerable households. However, we are concerned about the potential negative impacts on high-usage, low-income households, such as those with medical needs or living in poorly insulated homes. These consumers might see an increase in bills if more costs are shifted to the unit rate.

In principle, we support Ofgem's consideration of progressive measures to reduce standing charges. However, we urge Ofgem to carefully consider the unintended consequences for those who rely on higher energy usage and are already struggling with energy debt. It is crucial that mitigations are put in place for these households, and that any reforms are linked to wider affordability support, including energy efficiency measures and targeted financial relief.

We also support the idea of offering more diverse tariff options to give consumers greater choice. It is important that consumers, especially vulnerable ones, can access tariffs that suit their usage patterns and financial circumstances.

We recommend further engagement with consumer groups and charities like Money Advice Scotland to explore protective measures for low-income, high-usage households.

Considerations for moving operating costs from standing charges to unit rates

2 What are your views on the range (£20 to £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?

Please use this text box to tell us your views.:

We are generally supportive of the proposed range of shifting £20 to £100 of operating costs from standing charges to unit rates is generally supportive, but with some key considerations.

Firstly, shifting operating costs to unit rates would be beneficial to low-usage households, which often include vulnerable groups such as pensioners, those in debt, and low-income families. By lowering standing charges, these households could see more manageable energy costs, especially since they cannot reduce standing charges through reduced consumption.

However, we are concerned that households with higher energy needs, particularly those who rely on medical equipment or live in poorly insulated homes, may face higher costs if a significant portion of operating costs is shifted to unit rates. For these households, an increase in unit rates could worsen existing financial difficulties, particularly given the high levels of energy debt in Scotland.

In terms of the appropriate value within the £20 to £100 range, we would favour a more cautious shift initially, closer to the £20-£40 mark. This approach would allow for incremental reform, providing relief to low-usage households without significantly increasing costs for high-usage, low-income households. It would also give Ofgem time to assess the impacts and adapt further measures if necessary.

3 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?

Please use this text box to tell us your views on the trade-offs and impacts we have identified for consumers and suppliers:

We recognise the trade-offs Ofgem has identified for both consumers and suppliers in shifting operating costs from standing charges to unit rates. While we understand the complexity of balancing affordability, debt reduction, and supplier viability, we believe certain impacts on vulnerable consumers should take more significance in Ofgem's assessment.

Consumer Trade-offs:

□ Low-usage, low-income households: We agree that these consumers would benefit from reducing standing charges, as they typically consume less energy but are disproportionately affected by fixed costs. This is particularly relevant for those who are rationing energy to avoid debt. For these households, reducing standing charges would provide greater financial relief and allow them to feel more in control of their energy bills.

□ High-usage, low-income households: We are concerned about the risk of increasing unit rates, as it could disproportionately impact households with higher energy needs, such as those living in poorly insulated homes, those with medical needs, or larger families. This could lead to an increase in energy debt for already vulnerable groups, further deepening financial challenges. We urge Ofgem to consider how these consumers can be protected, perhaps through targeted financial assistance or energy efficiency support.

□ Prepayment meter customers: The impact on prepayment meter users should be a priority. These consumers often face difficulties in managing energy costs due to the inability to spread payments over time. Reducing standing charges would alleviate some of the pressures they face, but increasing unit rates may worsen their situation, particularly during high-usage periods like winter. Ensuring that any changes do not exacerbate seasonal debt build-up is essential.

Supplier Trade-offs:

□ Supplier stability and resilience: We recognise the importance of maintaining supplier stability to ensure the market can function effectively. However, we believe the primary focus should be on consumer protection, especially for those in vulnerable situations. Suppliers should be encouraged to absorb some of the risk by improving operational efficiency, rather than passing costs directly to consumers through higher unit rates. Ofgem could consider mechanisms that encourage or reward suppliers for adopting such measures.

Additional Impacts:

□ Impact on future energy policy: The shift in costs could have long-term effects on consumer behaviour, particularly around energy efficiency and the adoption of low-carbon technologies. Higher unit rates could disincentivise the adoption of electric heating systems, electric vehicles, or other green technologies, particularly among low-income households. Ofgem should carefully assess the wider implications for net-zero targets and ensure that reforms do not create added barriers for low-income households in taking part in the green transition.

4 What are the changes required, if any, to the price cap to facilitate a reduction in the level of the operating costs charged through the standing charge?

Please use this text box to tell us what changes are required, if any.:

We believe that several key changes to the price cap would be needed to facilitate a reduction in the level of operating costs charged through the standing charge while ensuring that vulnerable consumers are protected.

1. Price Cap Structure Adjustment:

To shift operating costs from standing charges to unit rates, the price cap structure must be adjusted to allow suppliers more flexibility in cost allocation between the standing charge and unit rate. This would involve revising how the price cap benchmarks operating costs, ensuring that suppliers can recover costs proportionately while safeguarding vulnerable consumers.

One option is to introduce a more progressive price cap formula that sets a lower maximum standing charge, allowing for higher unit rates without exceeding the overall cap for average consumption. However, care must be taken to ensure that any increases to unit rates do not disproportionately impact high-usage, low-income households, as this could exacerbate energy debt.

2. Differentiated Price Caps for Vulnerable Groups:

Introducing differentiated price caps based on consumption or household characteristics could help mitigate the impact on vulnerable consumers. For instance, a price cap with lower unit rates for low-income, high-usage households (such as those with medical needs or poorly insulated homes) would ensure that they are not unfairly burdened by higher energy bills due to increased unit costs.

Alternatively, a specific cap or additional financial protection could be introduced for prepayment meter users, ensuring that they are not disproportionately affected by any changes in cost recovery.

3. Enhanced Supplier Obligations for Vulnerable Consumers:

As part of any changes to the price cap, it may be necessary to introduce or enhance supplier obligations to protect vulnerable consumers from price increases. This could involve mandating that suppliers offer specific tariffs with reduced standing charges for low-income households or prepayment customers, ensuring that these consumers are not disproportionately impacted by the shift to unit rates. These tariffs could also include added measures such as protections from seasonal debt build-up for prepayment customers.

4. Monitoring and Review Mechanism:

Any changes to the price cap should be accompanied by a robust monitoring and review mechanism to assess the impact on consumers, particularly those in vulnerable situations. This could include regular assessments of the distributional impacts of the reforms, with a focus on whether the shift from standing charges to unit rates is increasing energy debt or disproportionately affecting certain groups.

Increasing consumer choice through tariff diversification

5 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?

Yes

Please use this text box to give us more details about your answer.:

We believe that mandating suppliers to offer at least one low or no standing charge tariff could be a positive step in promoting competition, particularly for vulnerable and low-usage consumers. However, there are important considerations to ensure this approach effectively helps those who need it most without creating unintended consequences.

Potential Benefits:

1. **Increased Consumer Choice:** Requiring suppliers to provide a low or no standing charge tariff would empower consumers, particularly low-usage households, to select a tariff more aligned with their energy consumption. This could be especially beneficial for those who currently feel disadvantaged by high standing charges, such as pensioners, single-person households, and those on prepayment meters.
2. **Enhanced Competition:** By mandating such tariffs, it could encourage greater price competition among suppliers. Suppliers would be incentivised to compete not just on the overall cost of energy but also on the structure of their tariffs, offering more flexible options to attract low-usage customers. This could lead to innovative pricing models that give consumers more control over their energy bills.
3. **Consumer Engagement:** Low-usage customers, many of whom may feel disconnected from the energy market because their savings from switching are minimal, might be more likely to engage with energy suppliers if they see a tariff that directly addresses their needs. This could increase market participation and help improve consumer confidence in the energy market.

Key Considerations:

1. **Impact on High-Usage, Low-Income Households:** While low standing charge tariffs are beneficial for low-usage consumers, they could be disadvantageous for high-usage households, particularly those who are low-income but have higher energy needs. For example, households with medical needs or those living in poorly insulated homes might face significantly higher unit rates on these tariffs. Care must be taken to ensure that vulnerable, high-usage consumers are not negatively affected by being defaulted or attracted to a tariff that ultimately raises their bills.
2. **Unit Rate Increases:** Low or no standing charge tariffs may require suppliers to raise unit rates to compensate for the loss of fixed-cost recovery. If these rates are too high, they could result in higher bills for consumers who slightly exceed average consumption, especially during colder months. This could inadvertently increase energy debt, particularly for those unable to easily manage fluctuating bills.
3. **Consumer Understanding and Clear Communication:** Many consumers find energy tariffs confusing, particularly when it comes to understanding the balance between standing charges and unit rates. If low or no standing charge tariffs are mandated, it is crucial that these tariffs are clearly communicated, with transparent information on who would benefit most. This will prevent consumers from selecting a tariff that appears cheaper but could cost them more overall due to higher unit rates.

Recommendations:

1. **Targeted Mandates:** If a mandate is introduced, it could be targeted towards specific consumer groups who are most likely to benefit, such as low-income, low-usage households or prepayment meter customers. This would prevent high-usage vulnerable consumers from selecting a tariff that may not suit their needs.
 2. **Consumer Protections:** Clear guidelines and safeguards should be in place to ensure consumers are well-informed about the benefits and drawbacks of low or no standing charge tariffs. This could include mandatory advice for vulnerable consumers, as well as a requirement for suppliers to highlight the potential cost implications of higher unit rates.
 3. **Review and Monitoring:** Ofgem should closely monitor the uptake of low or no standing charge tariffs and assess their impact on different consumer groups. If unintended negative consequences arise, such as increased debt for high-usage households, the mandate should be reviewed, and adjustments made.
- 6 How could we create flexibility in how costs are recovered between the unit rate and standing charge without reducing the protection provided by the cap?

Please use this text box to suggest ways we could create flexibility in cost recovery without reducing protection provided by the cap.:

To create flexibility in how costs are recovered between the unit rate and standing charge without reducing the protection provided by the price cap, several approaches could be implemented. These options aim to provide consumers with greater choice while maintaining affordability and safeguarding vulnerable households. Our recommendations for this focus on maintaining strong consumer protections, particularly for low-income and vulnerable groups, while enabling flexibility in tariff structures.

1. Introduce a "Split Cap" Model:

A flexible approach could involve introducing a "split cap" model that sets separate caps for standing charges and unit rates. This would give suppliers flexibility to adjust the balance between standing charges and unit rates while still ensuring that the overall cost of energy remains capped for consumers at different consumption levels.

Ofgem could set maximum allowable standing charges and unit rates separately, rather than having a single cap that applies to the combined total cost. This would allow suppliers to innovate in tariff design while ensuring that no consumer pays more than the overall price cap limit.

This ensures that suppliers can offer tariffs with lower standing charges or lower unit rates, depending on consumer preferences, without breaching the overall cap. Vulnerable consumers would remain protected, and suppliers would have more flexibility to offer tariffs that cater to different usage patterns.

2. Mandate Diverse Tariff Options Under the Cap:

Suppliers may have to offer a range of tariffs within the cap, each with different balances of standing charges and unit rates. This would enable consumers to choose the option that best suits their needs, while the cap would ensure affordability for all.

We believe that Ofgem could mandate that suppliers provide at least two or three options under the cap: one with a low standing charge and higher unit rate, one with a balanced structure, and one with a higher standing charge but lower unit rate.

This would increase consumer choice and help vulnerable consumers, particularly low-usage households, select a tariff that minimises their overall costs. At the same time, high-usage households could opt for tariffs with lower unit rates, reducing the impact on those with medical needs or poor insulation.

3. Seasonal or Usage-Based Adjustments:

Flexibility could also be introduced through seasonal or usage-based adjustments that align tariff structures with consumption patterns. For instance, standing charges could be reduced or eliminated during periods of low consumption, or consumers could be offered tariffs where the balance between standing charge and unit rate changes based on usage tiers.

Suppliers could be allowed to vary the standing charge and unit rate seasonally, with higher unit rates during peak usage months (e.g., winter) and lower standing charges during summer. Alternatively, usage tiers could be introduced, where lower consumption incurs a lower standing charge and higher unit rates, and higher consumption reduces the unit rate but increases standing charges.

This would give consumers more control over their bills and align tariffs with actual consumption patterns, making energy more affordable when usage is low. Vulnerable consumers could benefit from lower charges during periods when they are using less energy, while still being protected by the cap.

4. Prepayment Flexibility:

Special provisions could be made for prepayment meter customers, offering flexible tariff structures that address the unique challenges of this payment method. For instance, smoothing standing charges over time or linking them more closely to consumption could help prepayment customers avoid debt build-up during periods of low energy use.

For prepayment customers, standing charges could be adjusted to be paid only when the meter is in active use, avoiding the issue of debt build-up during periods of non-use (e.g., summer months). Alternatively, prepayment tariffs could be designed with more flexibility in how standing charges are spread throughout the year, ensuring that customers do not face large costs when reconnecting in winter.

This would protect prepayment customers, who are often more vulnerable, from accumulating standing charge debt and being hit with large reconnection fees. Flexibility in how standing charges are recovered could help them manage their energy costs better while ensuring suppliers can still recover fixed costs.

5. Limit the Shift to Unit Rates for Vulnerable Consumers:

A safeguard could be implemented to limit the extent to which standing charges can be reduced and unit rates increased for vulnerable consumers. Ofgem could establish guidelines to ensure that any cost shift does not disproportionately affect low-income, high-usage households, particularly those with medical needs.

Ofgem could set specific limits on how much of the operating costs can be shifted from standing charges to unit rates for certain consumer groups, such as those on the Priority Services Register or in fuel poverty. Suppliers would still have flexibility to adjust their tariff structures but would need to ensure that vulnerable households are not adversely affected by significant increases in unit rates.

This ensures that vulnerable consumers are not exposed to unaffordable bills due to a tariff that shifts too many costs to unit rates, while still allowing suppliers flexibility in designing tariffs for the broader market.

6. Transparent Communication and Tariff Comparisons:

Any flexibility introduced must be accompanied by clear communication and transparency to ensure that consumers can easily compare tariffs and understand how the balance of standing charges and unit rates will affect their bills.

Ofgem could mandate that all suppliers clearly display the balance of standing charges and unit rates on bills and tariff comparison websites. Consumers should be provided with simple tools to estimate the impact of different tariff structures based on their usage patterns.

This would ensure consumers are well-informed and can make educated choices about which tariff structure works best for them, preventing any exploitation of flexibility by suppliers that could lead to higher overall costs for certain groups.

7 In exploring alternative approaches to price cap compliance, what, if any, safeguards would be needed to protect vulnerable consumers?

Please use this text box to give us your views on the safeguards needed to protect vulnerable customers.:

In exploring alternative approaches to price cap compliance, it is essential to implement strong safeguards to ensure vulnerable consumers are protected from unaffordable energy costs and further financial hardship. We believe the following safeguards are necessary:

1. Tailored Price Caps for Vulnerable Groups

A key safeguard would be the introduction of tailored price caps for vulnerable consumers, particularly those on low incomes, prepayment meter users, and those with higher energy needs due to medical conditions or living in poorly insulated homes. A separate, lower price cap could help protect these households from any unintended consequences of tariff changes or cost shifts between standing charges and unit rates.

Vulnerable households, especially those with limited ability to reduce energy consumption, are most at risk of facing affordability challenges. Tailored price caps ensure that these consumers are shielded from higher energy costs that could push them into debt or cause them to ration their energy dangerously.

2. Mandatory Protection for High-Usage Vulnerable Household:

Many vulnerable consumers, such as those with medical conditions that require energy-intensive equipment or those living in energy-inefficient homes, need higher-than-average energy consumption. Safeguards should be implemented to ensure that these consumers do not face higher bills as a result of any shift from standing charges to unit rates.

High-usage households may struggle to reduce their consumption and increases in unit rates could disproportionately affect them. Safeguards, such as capping the unit rate increase for these consumers, would help ensure they are not left facing unmanageable energy bills.

3. Priority Services Register (PSR) and Automatic Eligibility

Households that qualify for the Priority Services Register (PSR), which includes older people, those with disabilities, and people with severe financial difficulties, should receive automatic eligibility for the most protective tariff options. This could include automatically enrolling them in tariffs with lower standing charges or capped unit rates.

Vulnerable consumers are often unaware of their eligibility for assistance or may struggle with the complexity of switching tariffs. Automatically placing PSR-eligible customers on the most affordable tariffs would reduce the risk of them being left on unsuitable or costly energy plans.

4. Debt Protection and Assistance

Given that many vulnerable consumers are already in energy debt, any alternative approach to price cap compliance should include mechanisms to protect against further debt accumulation. Suppliers should be required to offer accessible, debt repayment plans and more support to vulnerable households, especially if tariff increases.

Rising energy costs, especially for households already struggling with debt, could worsen financial hardship and lead to further disconnection risks. Stronger protections for those in energy debt are critical to preventing the debt burden from growing.

5. Caps on Prepayment Meter Standing Charge

Prepayment meter (PPM) customers, who are often low-income and vulnerable, face the risk of accumulating standing charge debt during periods of non-use. In any price cap compliance reform, it is crucial to safeguard PPM customers by capping or reducing standing charges for this group.

Additionally, there should be a mechanism to prevent standing charge debt from building up during periods when little to no energy is consumed.

Prepayment customers can face significant challenges when reconnecting after a period of non-use, as standing charge debt can deplete their top-ups. Reducing standing charges and addressing debt accumulation will protect PPM customers from further financial hardship and disconnection.

6. Clear Communication and Accessible Information

Vulnerable consumers should receive clear, simple, and accessible information about any changes to tariffs or price caps. This should include easy-to-understand explanations of how alternative approaches to price cap compliance may impact their bills, and guidance on how to access support if needed.

Vulnerable consumers may struggle to understand complex tariff structures or price cap changes, leading to poor decisions or remaining on inappropriate tariffs. Accessible information and proactive communication will help ensure they are informed and empowered to make the best choices for their circumstances.

7. Supplier Obligations to Monitor and Assist Vulnerable Consumers

Suppliers should have a legal obligation to monitor vulnerable customers' consumption and payment patterns to identify those who may be at risk of financial difficulties. They should be required to proactively offer assistance, such as energy efficiency measures, tariff reviews, or financial support, to those identified as vulnerable or at risk of falling into debt.

Many vulnerable consumers may not seek help when they are struggling with energy costs. A proactive approach by suppliers, mandated by regulation, would help identify those in need and ensure they receive the support they are entitled to.

8. Seasonal and Usage-Based Tariff Safeguards

For vulnerable consumers, particularly those using prepayment meters or those who experience seasonal variations in their energy usage (e.g., higher heating costs in winter), safeguards should be in place to smooth out seasonal fluctuations in energy costs. Suppliers could be required to offer payment smoothing options, where consumers pay a more consistent rate throughout the year to avoid large winter bills.

Seasonal fluctuations in energy costs can create financial stress for vulnerable households, particularly those on prepayment meters. Payment smoothing options would allow consumers to manage their budgets more effectively without risking self-disconnection during periods of high energy demand.

9. Ongoing Impact Assessments and Monitoring

Ofgem should regularly assess and monitor the impact of any changes to price cap compliance on vulnerable consumers. This would involve tracking the affordability, debt levels, and disconnection rates among vulnerable groups and adjusting policies as necessary to ensure protections remain robust. Vulnerable households are more susceptible to changes in the energy market, and ongoing monitoring is essential to ensure that policy adjustments are not causing harm. Regular assessments would provide data to inform further interventions if needed.

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

Please use this text box to suggest key considerations we should take into account in developing options for smoothing spend for prepayment meter customers.:

When developing options for smoothing spend for prepayment meter (PPM) customers, it is crucial to address the unique challenges faced by this group, many of whom are vulnerable and already dealing with financial hardship. We believe the following key considerations should be considered:

1. Addressing Standing Charge Debt Build-Up

One of the primary concerns for PPM customers is the build-up of standing charge debt during periods of non-use, such as over the summer when heating is not required. This creates a significant financial burden when customers resume using their meters, as their top-ups are quickly absorbed by unpaid standing charges.

Consider seasonal adjustments to standing charges, where the charges are lower or suspended during periods of non-use (e.g., summer), or implement a mechanism where standing charges are only applied when the meter is actively used.

This would prevent PPM customers from accumulating debt when they are not using energy, making it easier for them to manage their costs and avoid falling into further debt when reconnecting during high-usage periods.

2. Smoothing Payments Over Time

To avoid large spikes in energy costs during high-usage months (such as winter), PPM customers should have access to a payment smoothing system, similar to the direct debit model used by many credit meter customers. This would allow them to spread their energy costs more evenly across the year, rather than facing large bills during cold months.

Develop a system that allows PPM customers to make regular payments throughout the year, with credit accumulating during lower-usage months to cover higher costs during winter.

This would provide greater predictability for PPM customers and reduce the risk of self-disconnection during periods of high demand. It would also make energy costs more manageable for those on tight budgets.

3. Flexible Tariff Structures

PPM customers often face a lack of flexibility in tariff choices. Offering tariffs with more adaptable structures, such as lower standing charges or unit rates that change with consumption levels, could provide PPM customers with greater control over their energy costs.

Introduce flexible tariffs that allow PPM customers to choose between various levels of standing charges and unit rates, based on their usage patterns and preferences.

This would give PPM customers more agency in selecting tariffs that best suit their needs, potentially lowering their overall costs and reducing the risk of disconnection during peak periods.

4. Consumer Support and Education

Many PPM customers may not fully understand how their payments are structured or how to best manage their energy usage and costs. Providing targeted support and education is essential to help them navigate any new systems or tariff options designed to smooth their spending.

Implement comprehensive consumer support programs, including guidance on budgeting for energy costs, understanding tariff options, and accessing available financial assistance.

This would empower PPM customers to make informed decisions about their energy use and payments, potentially reducing debt and improving their ability to manage energy costs.

5. Affordability and Accessibility

Any options developed for smoothing spend must take into account the overall affordability of energy for PPM customers, many who are low-income and already struggling with the cost of living. Smoothing payments should not result in higher overall costs, and access to lower tariffs must be ensured.

Ensure that PPM customers are not paying disproportionately higher rates than credit meter customers and that any smoothing mechanisms do not result in hidden costs or higher rates over time.

This would ensure that vulnerable PPM customers are not financially penalised for their payment method, helping to alleviate fuel poverty and reduce energy debt.

6. Integration with Financial Assistance Schemes

Smoothing spend options should be integrated with existing financial assistance programs, such as the Warm Home Discount and other government support schemes, to ensure that PPM customers can access help when they need it most.

Link payment smoothing systems with financial assistance schemes, automatically applying discounts or credits to PPM accounts when customers are eligible for support.

This would streamline the process for PPM customers to receive the help they need, reducing administrative burdens and ensuring that support is delivered in a timely manner.

Network and policy cost allocation

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

Please use this text box to give us your views.:

We understand the complexities of allocating network and policy costs, particularly how they impact different groups of consumers. While network and policy costs are essential for maintaining energy infrastructure, achieving net-zero targets, and funding social programs like the Warm Home Discount (WHD), we believe that the allocation of these costs need to be fairer, particularly for low-income and vulnerable households.

1. Current Allocation Is Regressive

Currently, network and policy costs are largely recovered through standing charges, meaning that consumers pay the same fixed amount regardless of their energy usage. This approach disproportionately affects low-income and low-usage households, who pay a higher percentage of their income towards these fixed costs compared to high-income, high-usage households. From a fairness and affordability perspective, this allocation is regressive.

We believe that the current allocation of network and policy costs through standing charges should be reconsidered, as it imposes an unfair burden on low-income households, many of whom already face significant energy affordability challenges.

2. Linking Costs to Usage

One way to address the regressive nature of the current system is to distribute a greater portion of network and policy costs to the unit rate, making these costs more proportional to energy usage. This would help low-usage consumers, many of whom are low-income, by reducing their fixed costs. Additionally, linking costs to consumption could encourage energy efficiency, aligning with broader net-zero goals.

We support the consideration of shifting more network and policy costs from standing charges to unit rates, as this would create a more progressive system where those who use more energy, and likely have higher incomes, contribute more to the fixed costs of the system.

While shifting more costs to the unit rate would benefit low-usage households, it is crucial to recognise that some vulnerable households are high users of energy due to medical needs, poorly insulated homes, or larger household sizes. For these households, increasing the unit rate could lead to higher bills, exacerbating their financial challenges.

Any shift of network and policy costs to the unit rate should include safeguards for vulnerable, high-usage households, such as targeted financial assistance, improved access to energy efficiency measures, or special tariffs that limit the impact of increased unit rates.

3. Regional Disparities

Network costs can vary significantly based on geographic location, leading to regional disparities in standing charges. Consumers in certain areas, particularly rural or remote regions, may face higher standing charges, compounding affordability issues. This is particularly relevant in Scotland, where rural communities may face higher costs due to the greater distances involved in energy distribution.

Ofgem should consider addressing regional disparities in network cost allocation to ensure that consumers in rural and remote areas are not unfairly disadvantaged. A more standardised approach to network cost allocation could help alleviate regional inequalities and improve affordability for rural consumers.

Money Advice Scotland supports Ofgem's exploration of alternative approaches to the allocation of network and policy costs, with a focus on fairness and affordability. Shifting more costs to the unit rate would benefit low-usage, low-income households, but safeguards must be in place for high-usage

vulnerable consumers. Addressing regional disparities and considering a more progressive approach to policy cost allocation would further improve fairness.

Tell us any other views about this options paper

10 If you have any other views related to the topics in this options paper, please tell us about them.

Please use this text box to tell us about any other views that have not been covered.:

We have the following additional views on the topics covered, particularly focusing on how reforms can better support vulnerable consumers and address energy affordability challenges in Scotland.

1. Focus on Energy Efficiency Support for Vulnerable Households

While the options paper addresses the allocation of costs and tariff structures, a broader focus on energy efficiency improvements is critical. Many vulnerable households, particularly those in fuel poverty, are trapped in a cycle of high energy consumption due to poorly insulated homes, outdated heating systems, and inefficient appliances. Any reforms to standing charges, unit rates, or cost allocation will be more effective if paired with efforts to improve energy efficiency.

Ofgem should work closely with the UK and Scottish governments to ensure that vulnerable households receive more targeted energy efficiency support. This could include expanding access to grants or low-interest loans for insulation, heating system upgrades, and energy-efficient appliances, alongside broader reforms.

2. Holistic Approach to Affordability and Debt

The paper touches on affordability challenges, but it is important to recognise that for many low-income households, energy debt is not just a function of energy prices but also the result of wider financial difficulties. A more integrated approach to energy debt, which takes into account income support, housing, and financial resilience, would be beneficial.

Ofgem should explore partnerships with government agencies, local authorities, and charities to create a more holistic support system for consumers experiencing energy debt. This could include better coordination with benefits systems, housing support, and money advice services to tackle the root causes of debt and fuel poverty.

3. Addressing the Needs of Scotland's Rural Communities

The unique challenges faced by rural communities in Scotland must be carefully considered in any reform to standing charges and cost allocation. Many rural households are off the gas grid and rely on electric heating, which can result in higher energy costs. Additionally, network costs can be higher in rural areas due to the geographic challenges of delivering energy over longer distances.

Ofgem should consider developing specific measures or protections for rural households, including reviewing how network costs are allocated to ensure that rural consumers are not disproportionately impacted. Additional support for transitioning rural homes to more efficient heating systems, such as heat pumps, should also be prioritised.

4. Safeguarding Against Supplier Failures

Recent years have seen several energy suppliers fail, often leaving vulnerable consumers in difficult positions. While reforms to standing charges and unit rates aim to provide more choice and reduce financial strain, it is critical that these changes are implemented in a way that does not threaten the viability of smaller or financially weaker suppliers, which could lead to further market instability.

Ofgem should ensure that any changes to the price cap or cost allocation system do not undermine supplier resilience, particularly for smaller suppliers that play a key role in providing alternative tariffs. A risk management framework that protects consumers from the fallout of supplier failures is essential.

5. Digital Inclusion and Access to Support

Many of the reforms and options discussed in the paper may require consumers to actively engage with their energy suppliers, compare tariffs, and switch when necessary. However, many vulnerable consumers—particularly older adults and those in rural or low-income areas—face digital exclusion, limiting their ability to access information or make informed choices.

Ofgem should promote inclusive digital and non-digital access to energy support. This could include mandatory requirements for suppliers to offer offline tariff comparison services, provide clearer billing information, and ensure that all consumers, regardless of their digital access, can benefit from tariff reforms and cost-saving options.

6. Enhanced Consumer Advocacy and Representation

Vulnerable and low-income consumers often lack the voice and representation needed in the policy-making process. While Ofgem has made strides in engaging with consumer groups, a more formalised mechanism for continuous consumer feedback would ensure that the most affected groups are heard throughout the reform process.

Ofgem should consider creating a formal advisory board or working group composed of consumer representatives from charities, advocacy groups, and vulnerable households. This board would provide ongoing input on reforms, ensuring that consumer protections are maintained and that policy decisions are made with the needs of the most vulnerable in mind.

We believe that the considerations outlined in the options paper represent a positive step towards creating a fairer energy system. However, it is critical that these reforms are implemented alongside broader efforts to support vulnerable households, improve energy efficiency, and address the unique challenges faced by rural and low-income communities in Scotland. By adopting a holistic, inclusive, and forward-looking approach, Ofgem can ensure that energy market reforms deliver real benefits to all consumers, particularly those who are most at risk of fuel poverty and energy debt.

Conclusion and next steps

About you

11 What is your name?

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12 What is your email address?

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13 Are you responding as an individual or an organisation?

Organisation

14 If you're responding on behalf of an organisation, please tell us the name of the organisation.

Organisation:
Money Advice Scotland

15 If responding on behalf of an organisation, please tell us what type of organisation you represent. If you are responding as an individual you can leave this blank.

Charity

If you answered 'other', please use this text box to tell us which organisation you represent. :

16 Tell us which sector you work in.

Other (please specify)

If you answered 'other', please use this text box to tell us which sector you work in. :

Free money and debt advice sector

17 Do any of your responses contain confidential information?

No

If any of your responses contain confidential information, please use this text box to clearly explain which parts of your response you wish to be kept confidential. We will publish your name as part of the response unless you tell us not to. :

Feedback

18 How easy was the information to understand?

Easy

Please use this text box to tell about any other comments you may have.:

19 How easy was it using this platform (Citizen Space)?

Easy

Please use this text box to tell about any other comments you may have.:

It would be good to also have the option to reply via email.