

**Consumer Scotland's Response to Ofgem's Standing Charges Call for Input
January 2024**

By email to: StandingCharges@ofgem.gov.uk

Please respond to: grace.remmington@consumer.scot and michael.obrien@consumer.scot
for clarifications or follow-up.

About us

Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020, we are accountable to the Scottish Parliament. The Act provides a definition of consumers which includes individual consumers and small businesses that purchase, use or receive products or services.

Our purpose is to improve outcomes for current and future consumers and our strategic objectives are:

- to enhance understanding and awareness of consumer issues by strengthening the evidence base
- to serve the needs and aspirations of current and future consumers by inspiring and influencing the public, private and third sectors
- to enable the active participation of consumers in a fairer economy by improving access to information and support

We work across the private, public and third sectors and have a particular focus on three consumer challenges: affordability, climate change mitigation and adaptation, and consumers in vulnerable circumstances.

1. Summary

The key points in our response:

- Consumer Scotland is concerned that isolated intervention on standing charges could have unintended consequences for consumers in Scotland, who are likely to have higher energy needs, unless it forms part of wider energy market reform
- We agree with proponents of reform that there is need to tackle affordability challenges in the energy market, particularly in relation to prepayment households, but consider that standing charge reform tackled in isolation would not resolve these issues and are concerned that this approach would cause unintended impacts
- Households with above median consumption would lose out from any rebalancing of costs from standing charge to volume, and this is likely to disproportionately include consumers in Scotland who are likely to have higher energy requirements for longer over the course of the year alongside a high prevalence of electric-only heating and prepayment meters
- Ofgem's modelling does not support transferring costs from standing charges to the unit rate. The risk to certain low-income groups, and particularly consumers in vulnerable circumstances, outweighs the small financial benefit to a larger number of low-income households
- Increased volumetric charging would have negative impacts and high cost implications for disabled people and those with health conditions. We recognise that changes to volumetric charging may be a useful tool as we move towards net zero. However, we would propose that any reforms would need to be part of wider market reform which is responsive to the needs of all consumers and inclusive of consumers in vulnerable circumstances. Ofgem does not have the tools to offset unintended consequences of intervention
- Reform of tariff structures to improve affordability and sustainability, targeted energy bill support and a renewed impetus on energy efficiency, remain the best options for improving energy affordability for consumers
- Improving consumer education on standing charges can improve outcomes for both current and future consumers

- We have engaged with the call for input within the scope presented. However, there are wider questions around distributional fairness of fixed costs that fall beyond Ofgem's remit and we are cognisant of the wider conversation around how fixed costs should be shared between consumers.
- There is an opportunity to further consider how government and industry can design an inclusive energy market for all consumers. Inclusive design should be at the forefront of any future changes to the retail energy market, but our view is that this must be part of wider retail market reform. Some of this work sits outside of Ofgem's remit and within the purview of the UK Government.

2. Consumer Principles

The Consumer Principles are a set of principles developed by consumer organisations in the UK and overseas¹. Consumer Scotland use the Consumer Principles as a framework to enable us to consider markets and any related issues from a consumer perspective.

We have highlighted where the Consumer Principles are applicable within our response to help frame both issues and solutions from the consumer perspective. These are:

- Access: Can people get the goods or services they need or want?
- Choice: Is there any?
- Safety: Are the goods or services dangerous to health or welfare?
- Information: Is it available, accurate and useful?
- Fairness: Are some or all consumers unfairly discriminated against?
- Representation: Do consumers have a say in who goods or services are provided?
- Redress: If things go wrong, is there a system for making them right?

We have identified **fairness, choice and information** as being particularly relevant to this call for input – these are explored further in section 3.

3. Our response

Consumer Scotland welcomes the debate around the future of standing charges as a component of consumers' energy bills. For any future iterations of this work, we would encourage Ofgem to outline a stronger, more defined vision of the consumer outcomes that

standing charge reform would seek to achieve. This would allow stakeholders to scrutinise the proposed changes against those outcomes.

Rather than respond to the questions set out in the call for input document, we have chosen to highlight what we believe are the key considerations, and potential consumer harms, that may arise from changing the way that fixed costs are recovered in the energy system. We have outlined these under the relevant headings below.

3.1 Affordability

Despite overall downward trends in the wholesale markets² since the peak of the energy crisis, energy prices remain stubbornly high and the end of Government-funded energy bill support in April 2023³ has compounded affordability challenges for many. The average bill for a typical household continues to sit at almost double⁴ the level of winter 2021, with standing charges making up a greater proportion of bills, particularly on electricity, largely as a result of changes from Ofgem's Targeted Charging Review (TCR).⁵

Consumer Scotland is acutely aware of the concerns about standing charges from stakeholders in the consumer advocacy and advice sectors, including from members of our own Energy Consumers Network, and particularly in relation to the impact of standing charge accrual by prepayment households that are disconnected from supplies (more of which in section 3.6). However, we believe the principles set out in the TCR Significant Code Review⁶ to be sound in terms of ensuring that the energy transition is fairly funded, and we would be reticent to support any action which may begin to reverse this (see also 3.2). Also, we consider that affordability is most effectively dealt with in the round, and would be better as part of wider market reform, such as the ongoing Review of Electricity Market Arrangements (REMA).⁷

Reform of tariff structures to improve affordability and sustainability, targeted energy bill support and a renewed impetus on energy efficiency, remain the best options for improving energy affordability for consumers.

3.2 Fairness

The issue of standing charges is fundamentally a question of fairness – both for domestic and non-domestic consumers. The latter is rarely as prominent in consideration of standing

charges, but it is worth noting that some non-domestic contracts suffer from many of the same issues as domestic contracts.

Proponents of change have argued that volumetric cost recovery would help to sharpen price signals for energy efficiency. Whilst there is truth in this, it must also be said that all models of volumetric cost recovery go against the TCR principles by enabling (to a greater or lesser extent) some consumers not to pay their fair share of system costs despite maintaining an enduring reliance upon it (even if only for resilience purposes). This inevitably means that the fixed costs of the system are left to be recovered from those who cannot avoid them, which returns to the question of fairness.

Certain costs are fixed and/or firm, and the current approach has been based on the view that it is fairest for these to be socialised in some way across all consumers (at least by sector), and recovered at a set rate. There may be ways of improving tariff choice in the market that are low regret, i.e. not requiring regulatory intervention or new legislation (see also 3.5).

3.3 The disproportionate impact on Scottish consumers

Households with above median consumption would lose out from any rebalancing of costs from standing charge to volume.

This is likely to disproportionately include consumers in Scotland, who due to the cold and wet climate and households' exposure to the elements in rural areas, are likely to have increased energy requirements for longer over the course of the year. This is supported by National Energy Efficiency Data (NEED)⁸ which shows that the median gas consumption for dwellings in Scotland has been consistently higher than in England and Wales over the last decade, and 7.8% higher in 2021.

Scotland also has a higher proportion of consumers on traditional forms of electric heating⁹ who would lose out if charges were rebalanced in favour of volume. Electric heating users are considerably more likely to be fuel poor in Scotland¹⁰ compared to users of other heating fuels, so this change would serve to increase detriment amongst an already financially vulnerable consumer group. Consumer Scotland's energy tracker has repeatedly shown that electric heating users are more likely to report struggling to keep up with their energy bills when compared to other households – 37% of electric heating users reported struggling compared to 30% average in the tracker's autumn wave.¹¹

Citizens Advice Scotland has found¹² that the intersection of traditional electric heating and prepayment can create significant affordability challenges for consumers, and this was identified before the recent significant increases in domestic energy costs. Case evidence obtained from frontline advisers included that:

- ‘Client is on Universal Credit and, after rent is paid, he has around £690 every month and pays nearly half of the money for electricity’
- ‘Client has been paying £150 on electricity costs... and now has to use a food bank due to the financial position the meter has led them to’
- ‘Client has... storage heaters – these are too expensive to use and have been switched off for several years’
- ‘Client is struggling on Universal Credit for him and his 8-year old daughter – heating costs are very due to the heating system he has, approximately £300 a month’

3.4 Distributional impact

In its call for input, Ofgem has modelled an indicative transfer of 50% of standing charges to unit rates, to calculate the reduction or increase in the annual bill, and the impact of this change across 24 consumer archetypes.¹³ The findings in relation to low-income households are particularly insightful when assessing such an intervention through the lens of tackling affordability challenges. On electricity, 5.5m low-income households saw a small annual reduction (£21.90), whilst 1.2m low-income households saw a larger bill increase (£44.52) which was double the bill increase compared to the gain of those that would benefit. On gas, 3.7m low-income households saw a smaller reduction; whilst 1.8m saw a nominal increase.

Consumer Scotland does not consider that this distributional analysis supports the case for intervention on standing charges. Although smaller in number, we do not believe that benefits to the gaining group outweigh the risks to the losing group, especially knowing as we do that the losing group disproportionately consists of consumers in vulnerable circumstances such as those in receipt of disability benefits. It is also important to highlight that Ofgem does not have the tools to offset these unintended consequences, which increases the risk of intervention.¹⁴

Consumer Scotland's energy tracker has highlighted that certain consumers are having a worse experience of the energy market in comparison to others. For example, respondents to questions on energy bills show that the following consumers are more likely to report affordability challenges than the overall average of consumers:¹⁵

- women
- consumers between 25-64
- rural consumers
- those with an income lower than £20,000
- those with a disability or health condition

Disabled people are more likely to have increased energy requirements which results in increased demand on units of energy. Our internal analysis using the Scottish Household Condition Survey showed that disabled households spend significantly more on energy as a percentage of household income with a median proportional spend of 8.5% of total household income on energy among households with a health condition that limits them a lot¹⁶ compared with a 6% spend on energy in households without a health condition. It also found that, having controlled for factors such as income, age and other household characteristics, poor health increases energy use – and therefore energy spending. Our research found that, for those limited a lot by a health condition, there is an association with an additional energy expenditure of £124 per annum compared with households without a health condition, even after controlling for covariates including income¹⁷.

In our engagement with disabled people, those with health conditions, and their organisations, we understand that affordability challenges include:

- high costs of energy combined with high energy usage
- limited opportunity to reduce energy use
- generally lower incomes and higher cost of living

In this engagement, both consumers and organisational representatives were often critical of standing charges, particularly in relation to electricity. However increased volumetric charging would have negative impacts and high cost implications for disabled people, and

there are specific dimensions of standing charges which may increase affordability challenges for disabled people. These challenges also highlight areas where there may be opportunity for bespoke or innovative solutions in tariff design, or the design of financial support, which may be able to support disabled people and those with health conditions.

Inclusive tariff design, particularly one which embeds the experiences and expertise of disabled consumers and other consumers in vulnerable circumstances, would support the creation of innovative solutions which work for these consumers whilst also providing a potential avenue to reduce vulnerability by offering tariffs which meet the needs of consumers who often have a worse experience of the current energy market.

Energy rationing is a commonly-reported and dangerous coping mechanism for those facing affordability challenges, but even this extreme measure is often not an option for those with complex or severe conditions, or those with a progressive or terminal diagnosis. Research by Marie Curie has also shown that a terminally ill person's energy can rise by 75% after diagnosis.¹⁸ Going without energy can have negative effects on physical health – such as increased pain and fatigue from underheating – and impacts on mental health and social isolation (i.e. due to being unable to charge mobility devices).

These findings reinforce our Energy Affordability Tracker data (autumn 2023) which found that disabled people and those with a health condition are particularly likely to be at risk of energy affordability issues¹⁹:

- Households with a disability or illness (limited a lot) are 15% more likely to face affordability challenges
- Households with a disability or health condition are among those least likely to report improvements in energy affordability and have seen no decline in the proportion of households saying it is difficult or very difficult to keep up with their energy bills over the past year
- 51% of disabled households agreed that they couldn't heat their home to a comfortable level over winter (compared to an average of 39%) and this was higher for those who were limited a lot by their disability.

Disabled people, and those with health conditions, are also likely to be among groups of people who find it harder to benefit from flexibility opportunities, as they may be

dependent on critical equipment at peak times²⁰. This means that they may experience multiple points of disadvantage within the design of the energy market. We have used disabled people as a case study because Consumer Scotland has unique insight because we recently undertook research with disabled people and organisations representing them. However, there are other consumer groups who may have a specific challenges in the current energy market and whose insight needs to be incorporated into future energy market considerations.

There is an opportunity to reconsider how the energy industry approaches design to best meet the needs of all consumers. The energy crisis has highlighted that the energy market has left certain groups of consumers particularly at risk of hardship – and exacerbated vulnerability which existed prior to the energy crisis. Citizens Advice research has highlighted that there are people in a range of different circumstances who often have worse experiences of the energy market²¹ and these should be considered in inclusive design of smart technology. There is an opportunity to ensure inclusive design is at the forefront of any future changes to the retail energy market, and actively includes consideration of consumers that are not well-served by existing market design. The evidence from Ofgem and others suggests that rebalancing fixed costs from standing charges recovery to the unit rate is likely to be counterproductive to the affordability for high energy users, such as disabled people and those using medical equipment.

Whilst it may be beneficial for some low-income consumer groups, positioning any reform as part of wider market reform would allow tariffs to be designed to facilitate choice and to suit all consumers. This would also enable an overall consideration of how rebalancing of unit rates (alongside other tools like levy rebalancing) might be able to support both sustainability goals and improve the market for consumers in vulnerable circumstances.

3.5 Information and consumer education

Consumer Scotland considers there is an information gap around standing charges and energy costs more generally, and that consumer education could improve outcomes for current and future consumers. The ability to fund the fixed elements of the energy system is central to the provision of gas and electricity to households but it is not clear whether consumers understand that. Research by Which? found that there were low levels of consumer understanding of what standing charges were, with two-thirds (65%) of consumers being unsure what a standing charge is²². It is understandable that people are more likely to resent paying for something if the reason for it is unclear, and if access to this information is not readily available or proactively provided.

For current consumers, a useful example relates to prepayment meters and the seasonal consumption of energy. The winter bias in energy consumption is a well-known burden to prepayment households, because the drop in temperature demands that the consumer increase payment during the colder months, an issue that is more easily negated on other payment methods. Building credit through by topping-up extra through the warmer months is one way that prepayment households (that can afford to do so) can spread their energy costs through the year, and avoid standing charge accrual when the heating is off.

Encouraging or incentivising the adoption of this practice could help reduce the problems experienced by pre-payment households in colder months. We recognise that there are challenges associated with the financial vulnerability of these households and that not all consumers will be able to take this approach.

For future consumers, balancing fixed and variable costs will change over time as we move to a more flexible energy network. There are component parts that need to be considered as part of this: how to protect consumers in vulnerable circumstances, how to manage the different costs of different types of generation, and perhaps most importantly here – how to incentivise certain behaviours.

3.6 Choice

As a longer-term solution, we would like to see an approach which improves consumer choice in the market (i.e. in relation to how consumers pay their share of fixed costs such as varying standing charges/unit rate split tariffs and rising block tariffs alongside current offerings).

By offering a range of tariffs with various standing charge/unit rate splits, suppliers could deliver cost-benefits to consumers depending on their consumption pattern or preference, knowing, as we do, the distributional impacts on different consumer groups.²³ Similarly, suppliers could target specific tariffs to consumers that would benefit from a change in their standing charge/unit rate split, when a consumer contacts the supplier for support, or through effective utilisation of account data or financial vulnerability indicators.²⁴

However, more work may be needed to prevent consumer harm from consumers being put onto wrong or inappropriate tariffs. Therefore, shifts towards redesign of tariffs would need to be part of a wider package of work which is able to account for changes needed to consumer engagement and information, impact on price signals and other areas of reform which may support more consumer choice within the market.

This approach will also require access to, and the enhanced provision of, information to consumers. Providing consumers with the necessary information will allow them to make an informed choice, and equally importantly, it will arm consumers with the information to prevent them making the wrong choice, for e.g. choosing an unsuitable, and ultimately more expensive tariff.

3.7 Conclusion

Consumer Scotland's view is that no policy change to tariffs which are made in isolation will solve affordability issues for consumers. Some of these policy changes are likely to sit outside of Ofgem's remit and require action by both Ofgem and the UK Government. We have summarised our views above that tackling this issue in isolation will not solve this issue, and we are concerned that it will result in unintended consequences for a vulnerable group of consumers.

There is an opportunity within the future of the retail market to consider more systematic changes to the energy market which include targeted support, greater investment and targeting of energy efficiency and electricity market reform. These changes are likely to fall across Ofgem's and the UK Government's remit, and, in some cases, may also cross the competencies of the Scottish Government.

Within future retail market reform, there is also an opportunity to reconsider how the energy industry can design an inclusive energy market for all consumers. An inclusive energy

market may include the redesign of different tariffs to allow consumers to engage in a more innovative energy market which meets their needs both social (i.e., necessary high users such as disabled people or low users) and sustainability (allowing consumers to select tariffs that support the adoption of low carbon technologies).

¹ Citizens Advice Scotland (2018) [Consumer Principles](#)

² [Wholesale Gas Prices - Gas Price Charts & Graphs \(catalyst-commercial.co.uk\)](#)

³ Energy Bill Support Scheme

⁴ [Energy price cap to increase in April but consumers should switch to save money | Ofgem](#)

⁵ [Targeted Charging Review: Decision and Impact Assessment | Ofgem](#)

⁶ [Targeted Charging Review - Significant Code Review launch | Ofgem](#)

⁷ [Review of electricity market arrangements - GOV.UK \(www.gov.uk\)](#)

⁸ [National Energy Efficiency Data-Framework \(NEED\): consumption data tables 2023 - GOV.UK \(www.gov.uk\)](#)

⁹ [insights paper on households with electric and other non-gas heating 1.pdf \(ofgem.gov.uk\)](#)

¹⁰ 43% vs 22% for gas, Scottish House Condition Survey (2019)

¹¹ [Energy Tracker: Insights from Autumn 2023 | Consumer Scotland](#)

¹² [Frontline perspectives: clients' journeys with prepayment meters | Citizens Advice Scotland \(cas.org.uk\)](#)

¹³ [Standing Charges: Call for Input \(ofgem.gov.uk\)](#)

¹⁴ [Why standing charges are fairer than you might think | by Alexander Belsham-Harris | Dec, 2023 | We are Citizens Advice](#)

¹⁵ [energy-affordability-tracker-briefing-november-2023.pdf \(consumer.scot\)](#)

¹⁶ Internal Consumer Scotland analysis

¹⁷ Internal Consumer Scotland analysis

¹⁸ Marie Curie (2023) [One Charge Too Many](#)

¹⁹ [energy-affordability-tracker-briefing-november-2023.pdf \(consumer.scot\)](#)

²⁰ [A flexible future: extending the benefits of energy flexibility to more people - Citizens Advice](#)

²¹ [A flexible future: extending the benefits of energy flexibility to more people - Citizens Advice](#)

²² [Energy bills transparency - Which? Policy and insight](#)

²³ [Follow up on our review into the arrangements for recovering the costs of supplier failure \(ofgem.gov.uk\)](#)