

## **Energy Action Scotland Response: Standing Charges Call for Input**

### **Introduction**

Energy Action Scotland is the national third sector membership organisation dedicated to ending fuel poverty in Scotland. Energy Action Scotland has been working with this remit since its inception in 1983. 2023 is our 40th anniversary and we continue to campaign on the issue of ending fuel poverty as well as delivering many practical and research projects to tackle the problems of cold, damp homes.

Fuel poverty has four main drivers: high energy costs; low disposable incomes; poor energy efficiency of homes, and; how energy is used in the home. In Scotland, consistent with the definition within the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019, over 1 in 3 households are estimated to be in fuel poverty. Almost 1 in 4 of Scotland's households endure extreme fuel poverty, simply unable to afford anything like the level of energy to maintain and protect their health and wellbeing.

Fuel poverty is not evenly distributed in society and factors including geography and climate impact on communities whose residents may further be affected by medical and social conditions that magnify disadvantage. We are concerned when the distribution of energy costs impacts disproportionately on households who are least able to achieve the levels of heat and power sufficient to maintain health and wellbeing. Standing charge variation across Great Britain is cause for concern and the cumulative impact of rises in electricity standing charges is having a detrimental impact on those that can least afford them.

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

Energy Action Scotland notes that some suppliers already provide a tariff that moves the value of standing charges across unit rates. We believe that there are significant barriers that prevents this from being adopted by others. These are likely to be associated with complexity and business risk associated with the likelihood of achieving the standing charge value. Geographic variation in the level of the standing charge which suppliers would be required to balance across its customer base, which is in itself geographically limited in nature. When applied to unit charging, suppliers would need high levels of confidence that the levels of consumption and charging ensures that the value of standing charge is achieved. In practice this may mean equalising the regional variation in standing charge to create a level unit charge across all customers regardless of their geography. We support an equalisation of charges for what is national infrastructure, necessary for Great Britain households for have fair access to essential energy but do not believe that this should be at the responsibility or discretion of suppliers.

Uncertainty over consumption is likely to be a barrier. High energy costs have resulted in many households cutting back on their consumption as they simply couldn't afford it. The lack of predictability in consumption will be of concern to suppliers especially when coupled with any uncertainty over wholesale costs for gas and electricity. Over time and as a higher proportion of energy consumption comes from a decarbonised/NetZero source, this will introduce higher risks associated with peaks associated with warmer or colder winter periods. This uncertainty is likely to impact on suppliers' confidence on their ability to meet the values determined by standing charges.

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

Energy Action Scotland believes that there should be more innovation in the supply of energy to households. We support the introduction of a lower cost option or social tariff for low income households and households with unavoidable high energy consumption. This includes households with essential medical needs and conditions that necessitate higher consumption to maintain basic health and wellbeing. Suppliers in the wake of a period that has seen volatile and now sustained high energy costs that resulted in suppliers exiting the market and burdening households with the additional charges has reduced innovation.

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

Energy Action Scotland believes that to improve the provision for more equity in the levying of standing charges that Ofgem should recognise that the provision of energy as a national infrastructure. The regional variation in electricity standing charges is inherently unfair and detrimental to those households that are already recognised as being disproportionately impacted by the charges. The regional dimension of network costs should be apportioned nationally in order to create a fairer distribution of those costs.

**Q4: As a result of TCR and changes to the recovery of residual costs, domestic consumers with very low consumption now bear a share of fixed network costs which is more in line with the cost of maintaining access to gas and electricity networks. Is this fair? Should more be done to shield these customers from these costs?**

Energy Action Scotland is concerned where low consumption and low income interact. It is unfair that low income households have had to deprive themselves of essential levels of energy because of the impact that high daily standing charges can have on household budgets. More needs to be done to ensure that people have access to basic and essential levels of energy for health and wellbeing.

It is possible that higher income households with the resources to create properties with low consumption will experience the impact in an entirely different manner to low income households.

A balance is required between cost associated with the consumption of energy, energy charges and costs borne by general taxation. A fairer, progressive approach is necessary and this is absent in the current system.

It isn't clear that Ofgem understands why some households may be lower consuming. In stating as fact that consumption is lower it does not account for why it is lower. It may be that this low consumption is associated with smaller properties with few power consumption devices but equally this could be about the unaffordability of energy. It is incumbent on Ofgem to do more to understand what is driving changes in consumption not simply reporting that it has changed.

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

Energy Action Scotland understands the factors that Ofgem describes that results in the current variation in standing charges. We still contend that the provision of electricity and gas is national infrastructure, the costs of which should be borne more equitably with a balance of energy consumption or fixed standing charge and national investment from general taxation.

The cost differentials between the lowest standing charge area, London, and the highest, MANWEB result in real detriment to low income households struggling to access essential levels of energy.

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

Whilst other service sectors have different approaches to how infrastructure and their sector commodity is provided it is clear that diversity exists. Energy is an essential commodity, similar that way to water, and there is perhaps opportunity to learn more about how that sector is managing customer relationships. In recent times however the performance of water providers in some parts of Great Britain is a cause for concern, so it is with some caution that models that operate in water could influence the provision of energy. International examples may also provide some insight but the same challenges exist in most territories including Denmark which still has variable infrastructure charges for electricity based on regional network ownership.

Standing charges and the domestic retail market

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

Energy Action Scotland believes that this is a matter for suppliers to explain why they do not provide greater diversity of offerings.

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

Energy Action Scotland believes that this is a matter for suppliers to explain why they do not provide greater diversity of offerings.

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

Energy Action Scotland notes that there is no reference to some of the other tariff offerings provided by suppliers including Economy 7, Economy 10, Total Heat Total Control, Comfort Plus which, whilst experienced by a relative small share of the GB market are an important consideration as examples of variable unit pricing which when introduced afforded significant variability between 'peak' and 'off-peak' charges for electricity. This variability in charging has reduced/narrowed over time and the benefits for those with electric storage heating has eroded.

Ofgem could do more to ensure that where such tariffs exist or are introduced that customers are protected from changes over time that erode the benefits that they were 'sold'.

Research by Sustainability First<sup>1</sup> identified many of the issues associated with Economy 7 tariffs.

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

Energy Action Scotland believes that the complexity of market offerings is a significant barrier in itself to growing diversity. Our energy system is complex and that complexity is not generally beneficial to households, especially household with limited access or experience online or with similar complex products. The slow pace of the smart meter programme is a consistent frustration as it limits the ability of households to engage in opportunities, resulted in many missing out on financial payments provided by Government and limits the information available across our energy system.

**Q11: How significant an impact do standing charges have on customers' incentives to use energy efficiently? What evidence can you provide that this is the case?**

Energy Action Scotland is concerned more about the impact that standing charges have on low income households ability to achieve anything like the level of consumption that is consistent with health and wellbeing, their role in the fuel poverty status of households and there has been significant evidence provided by colleagues front Citizens' Advice Scotland, Citizens Advice, Consumer Scotland, National Energy Action and others about the disproportionate impact that standing charges have on low income households.

**Q12: Are there any forms of intervention in standing charges that Ofgem might consider that would minimise the risk of producing negative outcomes for some customers?**

Energy Action Scotland advocates for a fair more equitable energy system that protects the health and wellbeing in society. The current system singularly fails to do this. It is evident that there has been significant societal detriment from high and enduring energy prices. Winter mortality figures across GB have reported increases

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<sup>1</sup> Sustainability First, It's a Lottery: how Ofgem's price cap fails Economy 7 customers, January 2023

across winters 2022 and 2023, higher excess winter mortality, a decline in life expectancy and increase in infant mortality. During that time, in comparison to 2019 and earlier, energy costs as a proportion of household income ramped meaning a lower ability for households to meet the costs of energy. Whilst other factors including underlying health conditions and higher costs of essentials including food contribute, we, other charities and health professionals believe that the unaffordability of energy is the root cause of this harm.

Changes to standing charges cannot be made in isolation when it is clear that there are no better options available to low income households or households with unavoidably high consumption. Reform of standing charges is required but reform of tariff provision including the introduction of a social tariff is essential to protect those least able to thrive.

**Q13: How can we identify the complex needs of vulnerable customers and ensure that they are able to receive tariffs that benefit them the most?**

Energy Action Scotland believes that a social tariff for vulnerable low income households is an urgent and necessary innovation required that can help to protect the health and wellbeing of society. It is fair and just. It is consistent with the UN Declaration on Human rights which we would argue the current system is not.

See answer to Q12

**Standing charges in the non-domestic retail market**

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

Energy Action Scotland supports the interests of domestic energy consumers but through our work and that of our member organisations we interact with business customers from time to time. These interactions are typically with smaller, local businesses and it is clear that they have been subject to wild fluctuations in costs. These businesses report that they had limited ability to absorb or respond to these cost changes in the short time they occurred which was detrimental to their business and to local communities. We support all changes in the energy market that are fair and equitable and believe that small businesses were not well supported during the peak period of the 'cost of living' crisis and may still be struggling with energy debt that risks livelihoods, communities and health.

Energy Action Scotland is concerned that whilst there is, rightly, considerable focus on electricity standing charges the future of gas standing charges is not attracting the level of scrutiny and debate that it warrants. The future of 'gas' is uncertain at this time and there are risks to customers if and when there are substantial reductions in the number of gas consumers. This could increase greatly the value of gas network costs per customer if costs were recovered in a similar manner in the future.

## **Notes**

1 For more information visit: [www.eas.org.uk](http://www.eas.org.uk)

2 Energy Action Scotland works alongside our sister charity National Energy Action to more fully reflect experiences across the UK.