

MoneySavingExpert

Response to Ofgem call for input on standing charges

MoneySavingExpert (MSE) welcomes the opportunity to respond to this call for input on standing charges.

As our founder and chair Martin Lewis has raised publicly and privately, the high levels of standing charges are a moral hazard, which means low users are not rewarded for cutting their bills, and are left battling a strict floor of minimum payment they just can't go below. Most people are currently – and crucially, unavoidably – spending some £300 a year on average just for the facility of having gas and electricity, before having actually used any.

Because of this, those who are desperate and trying to cut back their energy usage gain little benefit from it – and our evidence shows that many are already facing significant harm as a result. Not only this, but the current set-up disincentives low use more generally, which works against wider moves towards increased energy efficiency and low carbon targets. In today's broken energy market, we believe that the regulator must be the one to act in order to reduce costly standing charges and to meet Ofgem's objective of changing its approach "in consumers' best interests".

Our submission will focus broadly on the consumer case for reforming how fixed costs are allocated between the standing charge and unit rate across all payment types. Much of this evidence has already been presented to Ofgem through its July 2023 call for input on the Operating Cost Allowances Review. We have included some further thinking in response to some of Ofgem's specific questions, focusing on the domestic market.

MSE research suggests consumers support reducing standing charges, including vulnerable high energy users

MSE would like to again highlight research conducted in 2023, which revealed wide support among MSE users for lowering standing charges – even when it was made clear to the 11,000 respondents that reducing or removing the standing charge could increase unit rates.¹ *See the annex for full results and further comments from users.*

- Overall, nine in ten (91%) said they think standing charges should be lowered or scrapped entirely.
- Nine in ten (92%) of those with household incomes of less than £20,000 also agreed they should be lowered or scrapped – unsurprising given these homes are more likely to bear a larger proportion of their bills in standing charges.
- Interestingly, 87% of those identifying themselves as vulnerable high energy users also said they would prefer the standing charge to be lowered or abolished. Given respondents were told this would increase unit rates, this could suggest that some of the customers Ofgem rightly holds concern for would still support paying more for their actual usage. One user told MSE:

¹ MoneySavingExpert.com, "Should energy standing charges be lowered and unit rates increased instead?", June 2023. Available at: <https://www.moneysavingexpert.com/poll/2023/energy-standing-charges/>

“I have multiple sclerosis and have a stairlift which needs to be left on 24/7. Because of my problems, there is more laundry than there normally would be for just my husband and myself.

“We are very frugal, living within our means, however we spend more on standing charges for our gas over the year than we spend on the gas we use. This feels very wrong and unfair, especially to a disabled person living just on benefits!” **Female, 50 to 64, east England**

The current set-up clearly disincentivises lower energy usage as well – which would benefit consumer bills, but also environmental goals and efforts to reduce network burden.

MSE has received plenty of comments from users sharing frustrations at this. Despite best efforts, they are not seeing their positive behaviours paying off in their bills, and their comments show a perceived lack of motivation to do more as a result. For example:

- *“Trying to be economical with energy use because of finances and partly my way of being green... but what’s the point when the standing charge is so hefty?”* **Female, 80+, south Wales**
- *“The standing charge means I can’t cut that part of the bill however hard I try to save energy – actually paying just for what is used would help limit the demand for energy by everyone.”* **Female, 35 to 49, south-east England**

Ultimately, keeping standing charges as high as they are could risk further disincentivising consumers and creating further pressure against these policies.

Fixed daily charges stand in the way of bill savings for those who struggle the most

Energy prices are still substantially higher than before the crisis started, previously sitting at £1,084 a year for a typical household² in summer 2021. This winter, typical bills are currently £1,928 a year, of which over £300 are standing charges, and consumers are no longer helped by the government support they received the winter before. The consequence of this is rising levels of consumer indebtedness (plus record levels of ‘bad debt’) and a national struggle to cut energy use, and therefore bills.

Since it went live in January 2022, MSE’s guide titled “What to do if you’re struggling to pay your energy bills” has had over one million visits.³ This resource outlines potential avenues of help for consumers, including checking what short-lived support is available, finding out how energy firms and others may be able to help, where to go for free one-to-one advice or wider debt help, and general energy-saving and cost-cutting tips.

Our “Energy saving tips” guide has had over one million views and our guide “Heat the human, not the home” – providing consumers with desperately-sought tips on how to save energy and stay warm with thermals, electric blankets and more – has received more than 750,000 visits since it launched in April 2022.⁴ As Martin Lewis has made very clear, this guide shouldn’t have to exist – and yet it was created *before* the highest peaks of energy prices to alleviate some of the intense

² Average based on today’s typical use, for comparison.

³ MoneySavingExpert.com, “What to do if you’re struggling to pay your energy bills”. Last updated 30 January 2024. Available at: <https://www.moneysavingexpert.com/utilities/how-to-get-help-if-you-re-struggling-with-your-energy-bills/>

⁴ MoneySavingExpert.com, “Heat the human not the home”. Last updated 3 January 2024. Available at: <https://www.moneysavingexpert.com/utilities/heat-the-human-not-the-home-save-energy/>

pressures and struggles households were facing. The demand for these resources is staggering, and demonstrates just how desperately many need to reduce their energy usage to cut costs.

Those with the highest need are the low-income customers looking to reduce their energy consumption by any means, as these households tend to spend less on energy overall, so a larger proportion of what they pay goes on the standing charge. Those on prepayment meters – who are more likely to be in vulnerable situations than those using credit meters and other payment methods – also find that the standing charge represents a significant proportion of what money they have available to spend on energy. Even if these customers significantly or completely reduce their energy usage, they currently have no option but to top up their meters with typically £25 a month just to stay on supply.

Yet high standing charges are currently a barrier for many consumers trying to make ends meet, reduce their debt and for those on prepay, to even turn the lights on.

Even if overall energy bills fall, standing charges can and likely will rise

Worryingly, at the time of writing, latest forecasts from Cornwall Insight predict that standing charges for the default tariff cap will rise in Q2 2024, and rise slightly again in Q4.⁵ Typical electricity standing charges for a direct debit customer are expected go from 53.35p to around 58p in Q2, even though unit rates are projected to fall substantially, bringing a typical bill down by an average 16%, to £1,620 a year.

By April, if these predictions are correct, standing charges will represent an even higher proportion of energy bills for those who are least able to pay and those who are trying their best to cut back. Those that will see the biggest drops in their bills are high energy users, particularly those who use more gas. Meanwhile, low energy users and those who use more electricity will see less of the benefit of falling energy bills due to standing charges. This is both illogical and unfair.

Intervention from the regulator is necessary to bring down the standing charge burden

While it is possible for providers to lower standing charges within the current regulations, many retail providers are likely still trying to recoup money from losses incurred during the highest peaks of the energy crisis. In practice, while Ofgem says it does not set standing charges, most supplier default tariffs are set at the highest level possible under the regulator's Price Cap, and they are the tariffs the vast majority of customers are currently on in this broken market. That makes it tricky for suppliers to increase unit rates to make up for lower standing charges.

The effect of this is that most suppliers continue with the current status quo. Therefore, we believe that unless guidance from the regulator is bespoke, specific and actionable, the market will not easily move to respond to the consumer challenge of high standing charges in a meaningful way. As Ofgem itself acknowledges, there is a need to see genuine tariff choice return to the market, but in the meantime, interventions to lower standing charges are essential.

We acknowledge and share concerns that some vulnerable high-energy users – especially those who also have low incomes – will be worse off if standing charges are lowered (though many told us they

⁵ Cornwall Insight, "Predictions and insights into the default tariff cap", January 2024. Available at: <https://www.cornwall-insight.com/predictions-and-insights-into-the-default-tariff-cap/> (Last accessed 29 January 2024)

still wanted this). As such, this change needs to come with additional price protections for these customers.

MSE and Martin Lewis, alongside many other campaigners including National Energy Action and Citizens Advice (and Ofgem itself), have advocated for an energy social tariff. Its existence would ensure protections for the most vulnerable consumers, who can't engage in a competitive market. Despite Government commitments to investigate options⁶, a consultation or policy is yet to materialise.

So, if there is to be no social tariff – which is within the Government's purview – to protect the most vulnerable, then an alternative (among many) under the current system is for Ofgem to set two variants in the Price Cap: one variant using the current structure, and one with lower standing charges. This would allow the majority of customers to benefit from fairer energy bills while incentivising them to reduce usage, and also provide the one million people identified by Ofgem as at risk with an alternative option which prevents them from falling into further hardship.

Concluding remarks

This is about whether the burden of what are deemed to be fixed costs are placed on standing charges or unit rates. We believe it is possible to see fixed costs recouped in a more progressive way.

In the consultation, Ofgem notes that fixed costs are a normal part of many markets and draws a comparison with a supermarket's fixed costs being included in the price of a loaf of bread. The difference is that if a shopper chooses not to buy a loaf of bread, they aren't charged for the fixed costs. While we aren't calling for a radical zero standing charge approach, we do want to see a more progressive split – one that moves some of the standing charge cost on to the unit rate and reduces the overall cost of the daily fixed charges. This would mean that cutting energy use leads to a larger impact on bills and would empower people to take action that's good for themselves and likely the environment too.

Without action, we can expect to see further harm for many consumers whose situations and ability to pay continues to worsen. Ofgem should use this moment as an opportunity to rectify this problem, while ensuring protections are in place for vulnerable customers with high energy usage.

⁶ HM Treasury, policy paper: Autumn Statement 2022, 17 November 2022. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible_1_.pdf

Annex: MSE research on attitudes towards lowering standing charges

There is wide support for standing charges to be lowered, including among vulnerable high energy users

Last year, we asked MSE users whether they think the way energy standing charges work should be changed, and 11,100 people responded.⁷ It should be noted that this poll is not of a statistically representative sample, but it strongly highlights how many people are concerned by this issue.

Overall, nine in ten – an overwhelming majority – said they think standing charges should be lowered or scrapped entirely, demonstrating a clear appetite from consumers for a change to the way the system currently operates. It’s important to note that it was made clear to respondents that reducing or removing the standing charge could increase unit rates.

*Figure 1: Should standing charges be lowered or cut and the cost put on unit rates?
(All respondents)*

Value	Percent	Responses
There should be no standing charges, increasing the unit rate	51.3%	5,694
Standing charges should be lowered, increasing the unit rate	39.9%	4,434
They should be kept roughly as they are now	3.1%	341
Standing charges should be increased, to lower unit rates	1.4%	151
I'm not sure	4.3%	480
Totals: 11,100		

It is imperative that some of the burden in the Energy Price Cap is shifted away from the standing charge to the unit rate, so that the standing charge is substantially reduced. Importantly, a move to decrease the standing charge should come with proper protections in place for vulnerable high energy users. This includes those with additional needs, such as physical or mental health conditions which lead to greater energy usage. Interestingly, 87% of those we surveyed who identified themselves as being in this position still said they would prefer the standing charge to be lowered or abolished.

⁷ MoneySavingExpert.com, “Should energy standing charges be lowered and unit rates increased instead?”, June 2023. Available at: <https://www.moneysavingexpert.com/poll/2023/energy-standing-charges/>

Figure 2: Should standing charges be lowered or cut and the cost put on unit rates?
 (Respondents identifying themselves as having additional needs, such as physical or mental health conditions, which lead to greater energy use)

Value	Percent	Responses
There should be no standing charges, increasing the unit rate	59.0%	532
Standing charges should be lowered, increasing the unit rate	27.7%	250
They should be kept roughly as they are now	3.7%	33
Standing charges should be increased, to lower unit rates	2.1%	19
I'm not sure	7.4%	67
		Totals: 901

High standing charges are reducing motivation (and ability) to save money and energy

We've heard from an innumerable amount of MSE users venting their frustration and struggling with the current standing charge setup.

Many have described how, despite best efforts to cut down on their energy usage, they are met with fixed costs they can't bear or will have difficulty paying. This includes many on low incomes and struggling to make ends meet:

- *"I have a smart meter and I've spent almost £1.20 a day before I've even got up, which is so frustrating as I'm really careful about energy consumption. This time last year, I could spend £1.50 or less a day. If rather pay a bit more for the units I do use, rather than a blanket charge for everyone."* – Female, 35-49, East Midlands
- *"Standing charges should be very low, perhaps not zero though. But no-one living in the cold because they can't afford to heat their homes should be paying 80p a day or so just for the privilege of getting a bill for gas and electricity."* – Female, 65-79, Yorkshire
- *"[Standing charges] disproportionately penalise those who use lower amounts of energy like me in a single person household and minimal usage."* – Male, 25-34, South Wales
- *"In practice, what this [process] means is that a poor person who cannot afford their electric bill, chooses to use less power to save money, but achieves very little as the standing charge is so high. A 50% cut in power usage does not result in a 50% cut in the bill, as a considerable part of that bill is now the standing charge."* – MSE email user
- *"My standing charge can be more than my energy use some months. That can't be fair. If they scrap them it will even out. I am single, disabled, so I use a fair amount."* – Female, 35-49, South East England

Others describe low or reduced motivation to actually cut down on energy usage, resulting from a perceived lack of financial results:

- *“The high rate of standing charges is unfair as you can have little impact by saving energy yourself. For example, we have solar panels and hardly use any electric in summer but still have to pay the significant standing charge.”* – Female, 35-49, West Midlands
- *“Due to the ever increasing cost of the standing charge it means less units are used in our household. We have always been lean with our usage so the ongoing increase in the standing charge feels like a punishment for trying to be sensible with our usage.”* – Male, 50-64, North West England
- *“Standing charges hugely penalise low users and disincentivise reducing usage (bad for pockets & the environment). The disadvantaged with necessary high usage should be supported.”* – Female, 50-64, West Midlands
- *“Standing charges are a regressive charge and only go to benefit high users and penalise low users and are particularly problematic for prepay meter users.”* – Male, 65-79, Southern England

Households with the lowest incomes face the biggest impact from high standing charges

The pumping up of the standing charge particularly disadvantages low-income energy customers looking to reduce their energy consumption by any means, as these households tend to spend less on energy overall – so a larger proportion of what they pay goes on the standing charge.

When we asked MSE users whether the way the standing charge works should be changed, over nine in ten (92%) of those with household incomes of less than £20,000 also agreed it should be lowered or scrapped.

*Figure 3: Should standing charges be lowered or cut and the cost put on unit rates?
(Respondents with a total household income of less than £20,000)*

Value	Percent		Responses
There should be no standing charges, increasing the unit rate	56.5%		1,425
Standing charges should be lowered, increasing the unit rate	35.2%		887
They should be kept roughly as they are now	2.1%		53
Standing charges should be increased, to lower unit rates	1.1%		27
I'm not sure	5.1%		129
			Totals: 2,521

Many users with the lowest incomes have directly told us that they cannot afford to use their heating, or are really struggling, in part due to the cost of the standing charge.⁸ This is harrowing and should not be the case. We've sadly heard lots of stories like the below:

- *"Because of standing charges, I cannot afford to use my heating."* – Female, 65-79, North East England
- *"I am a low user of gas and electricity. My gas usage is around £2 a month for a gas hob yet standing charge adds £9 to this. Electric standing charge is £138 a year before I turn on a light. I am a pensioner on a fixed income. To save money I sit in the dark and do not turn the heating on, just wear extra clothing to keep warm."* – Male, 65-79, London
- *"I have considered asking for my gas meter to be removed as I cannot afford the standing charge on benefits."* – Female, 50-64, South West England
- *"It seems very unfair that those who need to save money by reducing energy use should be forced to pay such large amounts even if they cut use to nothing."* – Male, 35-49, West Midlands
- *"I live on my own and in a pension. Last winter I did not use my heating until it was too cold for me I sat in blankets or went to bed. If the standing charge was lower I could use that saving in heating my room."* – Female, 65-79, North West England
- *"I try not to use my gas as much as possible because it's so expensive & the standing charges are a big rip off. I'm a very low user & my electric. I boil 1 full kettle & what's left put into a flask to use to get washed with or wash my pots."* – Male, 50-64, Yorkshire

Other low-income users described in exasperation how they've taken significant steps to cut down their energy usage, only to be confronted with the impacts of the high standing charge:

- *"I have multiple sclerosis & have a stairlift which needs to be left on 24/7. Because of my problems there is more laundry than there normally would be for just my husband & myself. We are very frugal, living within our means, however we spend more on standing charge for our gas over the year, than we spend on gas we use. This feels very wrong & unfair, especially to a disabled person living just on benefits!"* – Female, 50-64, East England
- *"Standing charges impact disproportionately the poorer and lower users and there is no way for them to economise."* – Male, 65-79, East Midlands
- *"Trying to be economical with energy use because of finances & partly my way of being green...but what's the point when the standing charge is so hefty."* – Female, 80+, South Wales
- *"The standing charge means I can't cut that part of the bill however hard I try to save energy – actually paying just for what is used would help limit the demand for energy by everyone."* – Female, 35-49, South East England

⁸ In this instance we are defining lowest incomes as those whose total household income is less than £20,000.

- *“It is impossible to save on fuel costs when you are paying £300 a year for nothing.” – Male, 65-79, North East England*
- *“You can cut down your usage as much as possible but that doesn't affect the standing charge which is very unfair. It doesn't matter how much electricity you use, we all have to pay the standing charge. I'm a low user and have solar panels, I'm doing my bit why can't they?” – Female, 50-64, West Midlands*
- *“I have always been very conscious of how I use gas & electric to keep my costs down but with the huge increase in standing charges my bill has increased massively and I can now do nothing to bring the cost down.” – Female, 35-49, North West England*
- *“I do my best to reduce my energy consumption, to the point of being tight. I feel I am being penalised unfairly with the standing charges being so high.” – Female, 50-64, Southern England*
- *“It's not acceptable that I have to pay money for not using any energy. If I go into hospital or take a very rare holiday. I still have to pay standing charges for my energy.” – Male, 50-64, Yorkshire*
- *“As a 1 person household in a 1 bed house who's always been a low user, my combined energy bills were £35 a month 2 years ago. Now they are £95. With this on top of the only getting 25% off council tax for 1 adult households rather than 50% and the miniscule low rates for single people being able to claim Universal Credit, it is really dire for single person households at the moment.” – Female, 35-49, East England*
- *“I have reduced my unit usage to the bare minimum due to being disabled and unable to work. Even so, my energy costs have risen enormously, solely due to the significant increase in standing charges. I totally understand that the infrastructure costs money to maintain, but how does it possible encourage people to reduce energy usage when standing charges are as high as they are?” – Male, 35-49, South Scotland*
- *“I reduce our usage to absolute minimum, but there is nothing I can do about standing charges, it's a complete nightmare. I would happily be without gas but I moved into a rental house that had gas supply, so now I'm committed to paying these excessive standing charges for something I don't even really want.” – Female, 35-49, North West England*

Terribly, some told of their desperation at having to choose between heating and eating – a situation they'll likely face again if standing charges remain high.

- *“Been forced into spiralling depression choosing between food and heating last winter. Can't face another one like that.” – Female, 35-49, North East England*
- *“I am currently paying more than 10% of my income [on energy] and that puts me in fuel poverty. I am a pensioner but not eligible for pension credit. I spent last winter feeling too cold because I couldn't afford any more.” – Female, 65-79, Southern England*

- *“Standing charges penalise those who are trying to save money by using less energy. Paying £300 whilst still being cold in your own home makes no sense.” – Male, 50-64, West Midlands*

About MoneySavingExpert.com (MSE)

MoneySavingExpert (MSE) MoneySavingExpert.com, founded and Chaired by Martin Lewis, is dedicated to cutting consumers' bills and fighting their corner. It is the UK's biggest and most trusted consumer website. For 20 years, campaigning journalism has been at the heart of MSE's mission. The site is behind many notable campaigns, including student finance reform, reducing energy bills, mortgage help, scam ads regulation and helping consumers reclaim an estimated £1bn in bank charges and £12bn in PPI payouts.

With millions subscribing to receive the weekly MSE's Money Tips email and visiting the site monthly, MSE ranks as YouGov's most recommended brand (all sectors) in the UK. It is also, according to Press Gazette, the UK's largest specialist online news publication, with more traffic than many national newspaper sites. In September 2012, the site joined the MoneySupermarket.com Group PLC