

Standing Charges: Call for Input

Citizens Advice Scotland response

Key points

- Citizens Advice Scotland believes there is a case for examining the standing charge regime but notes that shifting standing charges to unit rates will create 'winners' and 'losers'.
- We support the introduction of tariffs with reduced or removed standing charges, available to consumers who would benefit from them. If necessary, Ofgem should compel suppliers to introduce this kind of tariff.
- Based on the correlation between PPMs and fuel poverty, Citizens Advice Scotland endorses Ofgem's proposal to level standing charges for PPMs customers.
- Regional variations in standing charges disadvantage Scottish consumers relative to their counterparts in other network areas. These variations also impose an effective premium on people living in rural communities.
- Ofgem should examine the operation of social tariffs in the telecoms sector. Citizens Advice Scotland recommends the introduction of a social tariff in the energy sector as a matter of urgency.
- The lack of a standing charge is a potential benefit for certain customers on a rising block tariff. However, there are possible unintended consequences associated with this tariff structure, including energy rationing and hindering the take-up of low-carbon electric heating.
- The Priority Services Register provides one dataset that would help identify vulnerable customers. Better data-matching with the Department for Work and Pension and HMRC will refine efforts to target support to vulnerable consumers.

Introduction

Citizens Advice Scotland is deeply concerned about the current affordability challenges in the energy market. Consumers who struggled with rising costs and energy debt accrued last year will continue to struggle with their energy bills this winter. Citizens Advice Scotland data underlines the scale of the challenge that unaffordable energy bills pose currently:

- From July to September 2023 alone, the Citizens Advice network in Scotland provided 18,546 pieces of advice related to regulated fuels.
- Demand for energy debt advice has increased by 34 per cent from 2021/22 to 2022/23.
- The average energy debt for people who sought complex debt advice from the Citizens Advice network in Scotland is £2,307.

Given the crisis in energy affordability, Citizens Advice Scotland reiterates its call for a social tariff in the energy market.

Pressure on wholesale costs rather than increased standing charges has been the primary accelerant of energy bills in recent years. However, increased standing charges have exacerbated the unaffordability of energy bills, particularly for people on low incomes. Requests for advice from the Citizens Advice network in Scotland suggest that consumer awareness of standing charges is low and that standing charges impose a financial burden on vulnerable households.

Citizens Alert: An East of Scotland CAB reports of a client who sought CAB support with various priority debts, including energy arrears. The client was struggling financially due to his low income and cost-of-living increases. The client stated that he did not use gas heating to reduce energy costs. He did not understand why he received charges and accrued energy debt, unaware of the daily standing charges.

The trade-offs involved in changes to standing charges are complex, creating both 'winners' and 'losers'. Low-income households who use limited energy are likely to be among the winners. Equally, the losers will include fuel-poor people who use medical equipment or mobility aids. People in this scenario have unavoidably high levels of energy use. Citizens Advice Scotland believes suppliers must give consumers the option to switch to a tariff with a reduced or removed standing charge. This choice would allow consumers to access a tariff that suits their circumstances and benefits them financially. This tariff should be a complement to, rather than a replacement for, existing tariffs in the market.

Citizens Advice Scotland notes that no supplier has developed this kind of tariff and calls on Ofgem to mandate suppliers to offer tariffs with reduced or removed standing charges. This move aligns with Ofgem's responsibilities to ensure fair treatment for consumers and enable innovations that reduce prices. Compelling suppliers to offer this extra tariff provides choice for consumers while safeguarding households that might lose out from a general shift from standing charges to unit rates across all tariffs. In line with our strong support for a social tariff, Citizens Advice Scotland would be open to supporting also support an iteration of a social tariff that includes reduced or removed standing charges. This option would provide targeted support for households who require cheaper energy and whose circumstances mean they would benefit from lowered standing charges.

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

Ofgem's proposal to level the cost of standing charges for consumers on prepayment meters from April 2024 would help lower standing charges under the cap. A higher proportion of Scottish households with a PPM are in fuel poverty than households without a PPM (36% and 22%, respectively).¹ Given the correlation between PPMs and fuel poverty, Citizens Advice Scotland supports Ofgem's levelling standing charges for PPM customers.

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?

¹ [Scottish Government, *Scottish House Condition Survey: 2019 Key Findings \(2020\)*, p.6.](#)

The Targeted Charging Review has benefitted customers and the energy network at an aggregate level. However, introducing a fixed standing charge that does not reflect usage levels may have pushed up bills for low-usage consumers. Restricting energy usage and self-disconnection are linked to fuel poverty.² TCR may have negatively impacted consumers who struggle with energy affordability.

Citizens Alert: A West of Scotland CAB reports of a client who lives in a socially rented property with his son, who had stopped using gas because he found it unaffordable. The client was confused when he received a bill for £41 as he did not understand that he had to pay a standing charge regardless of the level of his energy use.

Low-usage households exert less stress on the grid than their high-usage counterparts. Accordingly, Citizens Advice Scotland considers it unfair that low-use consumers pay the same fixed costs as others and believes they should receive extra protection through the provision of tariffs with low or no standing charges.

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

Citizens Advice Scotland is concerned about the detrimental financial impact caused by regional variations in standing charges. These variations particularly concerning given the fuel poverty rate in Scotland is around 24% (613,000 households) and the extreme fuel poverty rate is around 12% (311,000 households).³ This combination of regional variations and ingrained levels of fuel poverty indicates changes to the standing charge regime is required.

Regional variations in standing charges reflect the increased costs of delivering electricity to rural areas. The cost of building and maintaining electricity transmission and distribution infrastructure in areas with complex topographies also influences regional disparities in the electricity standing charge. Similarly, the cost to serve customers in areas with relatively low and sparsely distributed populations is higher than in densely populated urban areas. Given these factors, regions that include large rural areas experience higher than average electricity standing charges.

Standing charges in the two network areas covering Scotland bear out the extra cost associated with rurality. In the Scottish Hydro network area, which covers the Highlands and Islands of Scotland, standing charges increased 113.7% between 2021 and 2023. The average standing charge as of October 2023 was £212.83, which is 10.6% higher than the GB average. Standing charges in the Scottish Power Networks area, which includes rural Southern Scotland, increased by 137% between 2021 and 2023. The average standing charge in the Scottish Power network area in October 2023 was £221.63 – 15.2% higher than the national average.⁴

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

Citizens Advice Scotland supports a social tariff in the energy market and notes that telecoms providers offer this form of tariff to consumer who receive certain social security payments. Social tariffs in the telecoms market are priced between £10 and £20 and include a choice of download speeds. They are loss making but telecom providers offer them voluntarily. While noting that Ofgem cannot introduce a

² [Scottish Government, *Tackling Fuel Poverty in Scotland: A Strategic Approach* \(2021\), p.52.](#)

³ [Scottish Government, *Scottish Household Condition Survey: 2019 Key Findings* \(2020\), p.62.](#)

⁴ [Ofgem, *Standing Charges: Call for Input* \(2023\), p.28.](#)

social tariff unilaterally, Citizens Advice Scotland encourages it to engage with Ofcom to consider how social tariffs work in the telecoms sector and share this information with government.

There are parallels between line rental in the telecoms market and standing charges in the energy market. Akin to Distribution Network Operators in the energy sector, Openreach has a near monopoly on the broadband network infrastructure. Virgin Media O2's network and some smaller 'alt nets' provide limited competition to Openreach. It charges providers line rental fees, which providers pass on to consumers. Providers include the line rental fee in the monthly price of broadband. Unless a consumer signs up to Virgin Media or an alt net, they must pay a line rental charge as part of their monthly bill. Citizens Advice Scotland has made representations to Openreach to consider dropping line rental fees to minimise social tariffs' financial impact on suppliers. This change would facilitate providers offering faster speeds and increase customers' awareness of social tariffs.

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

Current licence conditions limit suppliers to four 'core' tariffs for each payment method. Ofgem should expand the number of core tariffs suppliers offer, introducing an additional, specific tariff with a reduced or removed standing charge. This move would give consumers more choice and, for certain customers, reduce their costs. Consumers who would lose out through a lower standing charge due to increased unit rates would remain on a more suitable tariff. Social tariffs, including ones with lowered or removed standing charges, targeted at low-income households would increase the range of available tariffs further, ensuring that consumers pay less for their energy overall.

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

A benefit of rising block tariffs is the lack of a standing charge, albeit the first block of consumption acts as a de facto standing charge. People who use limited amounts of energy will benefit from the relatively low unit rates charged in the lower blocks of the tariff. Conversely, high-usage consumers could not avoid progressively more expensive unit rates. This cohort includes disabled people and people with medical conditions that require them to use electricity to run medical equipment or refrigerate medicines. Similarly, households with electric storage heating may not benefit from a rising block tariff.

Citizens Alert: A North of Scotland CAB reports of a client who had storage heaters installed after struggling with billing issues. The client found that after installing the storage heaters, the tariffs were lower than their average rate for heating and higher for other uses. On leaving both meters in place, as their supplier advised, all consumption is at a higher rate.

A rising block tariff could incentivise consumers struggling with energy affordability to ration or self-disconnect to avoid moving into a more expensive tariff block. Citizens Advice Scotland has evidence that energy rationing and self-disconnection are widespread. Our Extra Help Unit, which assists consumers who may be vulnerable or at risk of disconnection handled around 26,000 self-disconnection cases across Great Britain, and approximately 1,750 in Scotland, during 2023. In 2022, these figures were 15,621 across Great Britain and 1,239 in Scotland. Self-disconnection cases have risen significantly since 2021, when the Extra Help Unit received 2,870 cases across Britain and just 186 cases in Scotland. The extent of self-disconnections underscores the importance of making energy more affordable via a social tariff, even if the rising block tariff becomes available.

A potential solution to this problem is to allow low-income consumers free access to a certain amount of energy. Tariffs that provide a limited amount of free energy are common in other parts of the world, including Latin America.⁵ Access to free energy was a frequently used social policy instrument during the Covid-19 pandemic.⁶ Providing fuel-poor consumers with a limited amount of free energy could alleviate some of the financial strain associated with moving into a more expensive tier of a rising block tariff.

A rising block tariff may have implications for achieving the net-zero ambitions set by the UK and Scottish Governments. Decarbonising heat is crucial to reaching net zero and will require a move from gas boilers to newer technology like heat pumps. Given that heat pumps run on electricity, a rising block tariff may not be appropriate for households with this technology. This example highlights that a rising block tariff is only suitable for some consumers, even with the advantage of having no standing charge. Furthermore, it emphasises the importance of joining up policies around changes to the energy market and the transition to net zero. By considering these areas in tandem, policymakers can avoid unintended consequences like rising block tariffs disincentivising consumers from adopting heat pumps.

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?

The Citizens Advice network in Scotland does not collect specific data on the number of requests for advice related to standing charges. However, clients have informed CAB advisers that standing charges disincentivise their energy use. These instances suggest that standing charges lead to lower energy use due to cost concerns rather than attempts at improving energy efficiency for environmental reasons.

Citizens Alert: A West of Scotland CAB reports of a single mother with a five-year-old child, who sought CAB support after adding £20 to her prepayment meter and found only £6 left on the account three days later. The client was in energy arrears of £65. The client had a smart meter installed and noticed that her usage nearly doubled in the space of a week without any known change in her energy consumption. The client was struggling to continue to put money in the meter and deal with the costs of heating the house during a time when they were not using it. The client said they felt stressed and could not continue to pay the cost to heat her home from autumn onwards.

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?

Citizens Advice Scotland’s position is that Ofgem should compel suppliers to offer lower or no standing charge tariffs. However, these tariffs should complement rather than substitute other tariffs. There should be no blanket removal or lowering of standing charges – and commensurate unit price rise – across all tariffs. This approach will increase choice in the market and benefit low-usage consumers while protecting vulnerable customers who stand to lose out from changes to the standing charge regime.

⁵ [A. Banal-Estanol, J. Calzada and J. Jordana, 'How to Achieve Fuel Electrification: Lessons from Latin America', *Energy Policy*, 108 \(2017\).](#)

⁶ [Marlies Hesselman, Anais Varo, Rachel Guyet and Harriet Thomson, 'Energy Poverty in the COVID-19 Era: Mapping Global Responses in Light of Momentum for the Right to Energy', *Energy Research & Social Science*, 81 \(2021\).](#)

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?

The Priority Services Register provides a database of potentially vulnerable customers. Ofgem should require energy suppliers to contact all customers on the PSR to ensure they are on the most appropriate tariff, particularly if a new tariff with a different standing charge becomes available. In the longer term, Ofgem should make representation to the Department for Work and Pensions and HMRC to develop data-matching arrangements with energy suppliers. Implementing that system would allow suppliers to identify customers receiving benefits and/or on low incomes.