

Chair of the Scottish Fuel Poverty Advisory Panel

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15/01/2024

To: James Crump, Head of Smart Metering, Ofgem
CC: Scottish Fuel Poverty Panel Members – Ms Margaret Corrigan, Dr Kirsten Jenkins, Mr Alister Steele & Dr Fraser J Stewart

Dear James,

[The Scottish Fuel Poverty Advisory Panel](#) is an advisory non-departmental public body which provides independent advice to Scottish Ministers on fuel poverty and scrutiny of their progress towards delivering Scotland's 2040 fuel poverty targets.

Since it was established on the 1st of January 2022 the Panel has engaged widely across the third sector (advice agencies and housing associations) and energy sector (retail and network energy companies, trade associations, yourselves at Ofgem, and the Energy Ombudsman). It has also engaged with those with lived experience of fuel poverty. The Panel's views are informed by this engagement as well as their own knowledge, experience and understanding.

There are four drivers of fuel poverty: high energy prices; how energy is used in the home; the poor energy efficiency of the home, and low household income. Post-energy crisis, high energy prices are one of the most material causes of fuel poverty in Scotland. As a result of this, the Panel is of the view that fuel poverty cannot be eradicated without substantial reform of the UK's system of energy pricing. Reform of standing charges is a part of this process because, whilst standing charges don't cause fuel poverty, they can deepen it. This is because:

- current standing charge rates are very high which disproportionately impacts those using less energy¹
- standing charges present a particular problem for those using pre-payment meters
- standing charges vary by region and supplier and tariff, and so both intensify fuel poverty in areas with higher charging rates, and appear to go beyond the fixed costs incurred to provide an energy supply to the home

This response will provide more detail on these points, as well as presenting the Panel's view of what standing charges should cover, and how energy pricing could be reformed.

¹ For example, from January to March the single rate daily standing charge for electricity in Northern Scotland was 51.80 pence per day, the daily standing charge for gas was 29.60 pence per day (source: [Get energy price cap standing charges and unit rates by region | Ofgem](#)).

The Panel's view on standing charges

The purpose of standing charges

The purpose of standing charges should be to cover transmission and distribution costs, including the fixed costs incurred by getting wires and pipes to a home, and a meter on the wall. Standing charges should relate to the costs of wires and pipes in a region, and as such should be consistent within a region, regardless of tariff or supplier.

Consideration should be given to whether standing charges should be fixed across the GB energy market, but it is important to assess whether this creates any cross-subsidisation issues or any impacts on the Electricity System Operator's regional pricing ambitions.

If a regional approach is to continue, it should be consistent and there should be flexibility within standing charges to reduce rates where enhanced community benefits, deriving from the drive to net zero, exist. For example, in areas of high renewable energy production, such as the Scottish Highlands, or in areas that are facilitating transmission enhancements to support net zero, such as in the Scottish Borders.

Standing charges and vulnerable groups

It's important to understand that the requirement to pay a daily standing can have a detrimental impact on those who pre-pay. There are two key reasons for this:

- firstly, those who pre-pay are more likely to be on low incomes and without access to savings. The money they put on their meters is initially used to cover any standing charges, which often² causes them to be under or not heating their home at all
- secondly, when a payment for a daily standing charge is missed, it is the first thing that is collected next time a person who is pre-paying tops up. When other energy debt is also being recovered through pre-payment meters, it can cause further hardship. When any daily or weekly debt or standing charge payments are missed the vast majority of these arrears must be repaid when the customer next tops up before any energy can be accessed

In these circumstances, pre-paying individuals or households may self-disconnect from or self-ration energy. Issues around self-disconnection and self-rationing are often discussed in relation to debt, but it is important to recognise the role standing charges play in this process.

Reforming standing charges

It is the Panel's view that measures must be taken to support the most vulnerable, including low-income energy consumers, and those who incur high costs to heat their homes. This can only be achieved through overarching reform of the GB system of energy pricing and support, as will be discussed later. Reform of standing charges in isolation must be treated with care, be set against a clear set of objectives and avoid exacerbating existing inequalities in the energy system which are likely to increase levels of fuel poverty.

² [Energy rationing an increasing coping mechanism for dealing with fuel poverty - Fuel Poverty Scotland \(fuelpovertypanel.scot\)](https://fuelpovertypanel.scot)

Priority should be given to changes to the standing charge which benefit the most vulnerable consumers or those in or at risk of fuel poverty. For example, not applying the standing charge in peak winter months to ensure that all the money spent on energy in the winter goes on usage, or identifying a separate way to collect standing charges for people using pre-payment meters that doesn't result in a meter disconnecting if the standing charge is not paid, particularly over winter. Building on this point, consideration should be given to different ways to collect debt for people using pre-payment meters.

Considering the proposal to potentially transfer network costs from standing charges to unit rates, it is the Panel's view that this is highly likely to deepen fuel poverty. It is probable that this would lead to households who use above average levels of energy paying more than they already do, which may, in turn, lead to these users using less energy than they need to avoid higher bills. Many above average energy users are likely to be in fuel poverty, including those who live in poorly insulated homes with inefficient and expensive heating systems, who live off grid or who have additional heating needs due to health conditions. In addition, increased unit rates would result in the differential between winter and summer bills increasing.

Moving network costs from standing charges to unit rates also risks overly benefiting the early adopters of technology. By creating this type of incentive for those who can afford to reduce energy via investment in renewable or efficiency measures, it could result in the network costs being paid by people who are less able to afford new technology.

At the liberalisation of the domestic energy market, some suppliers, including npower and British/Scottish Gas, used unit rates to collect standing charges through 'primary' and 'secondary' blocks. The 'primary' block was charged at a higher rate and the 'secondary' block was charged at a lower rate. Analysis of the 'primary' and 'secondary' block approach should be undertaken to understand if it would create a fairer application of standing charges and improve outcomes, again with a need to ensure that it does not cause any cross-subsidisation issues or unintended contradiction against the UK or Scotland's net zero commitments.

The need for wider reform of energy pricing and support

In any review of standing charges it is important to examine the costs that are to be collected through an energy bill and to identify if there would be more appropriate ways to fund these. If the fixed charges incurred from supplying energy are to be collected from household consumers through their energy bill consideration should be given to whether costs should be incurred equally per household, or based on energy consumed, and to whether there should be any fuel bias. Building upon this, thought has to be given to how energy prices are set and how support is targeted at those households who cannot afford standing charges, or for whom the collection of these charges will result in fuel poverty.

It is the view of the Panel that social and environmental costs, including costs related to supplier failure, the Warm Home Discount scheme and green energy costs, should be separated out from standing charges and funded through central taxation. As stated previously, the Panel's view is that standing charges should only cover energy transmission and distribution costs.

Building on this need for wider reform, it is the view of the Scottish Fuel Poverty Advisory Panel that the UK Government needs to reconsider the energy support given to vulnerable and disadvantaged households. A significant level of targeted support is needed to ensure vulnerable consumers are able to heat their homes to recommended temperatures and access required energy services. It is important that this support accounts for geography, given the impact of high energy costs for those in poorly insulated homes, which are often in rural areas.

It is the Panel's view that those in greatest need should receive tariff support that covers a significant unit rate discount and all of their standing charge. To streamline processes, anyone on means-tested benefits should automatically be eligible for this support should they require it, but a secondary eligibility route should be available to others who do not claim means-tested benefits but who would nevertheless be likely to suffer detriment if no support was available. Such groups could include households who:

- have a low income but do not claim means-tested benefits and require support with energy bills
- have a modest income, but live in a home that's expensive to heat (e.g., houses with poor energy efficiency, off the gas-grid, and households with high energy needs, e.g., because of a medical condition)

This tariff support should be flexible, ensuring it can be targeted and tapered according to need. This tapering will help to avoid an entitlement cliff edge and preserve the financial sustainability of the tariff.

It is the Panel's view that the level of meaningful financial assistance required to support households' energy costs cannot be funded simply through levies on bills. The costs of this tariff support should be covered through general taxation. This could be offset by reviewing the non-targeted, non-taxable status of winter fuel allowances to those of pensionable age across the UK, and, ringfencing taxation from the energy sector, including the additional VAT receipts for domestic energy which has been collected since the energy crisis started.

Please see our [detailed recommendations](#) for support to help people access heat and energy services.

The Panel would be very happy to discuss further any of the issues raised in this response.

Yours sincerely,



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