



A grassroots campaign taking action against mammoth fuel bills and working towards an affordable, sustainable and democratic energy system

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Mr J Brearley, CEO
Ofgem
10 South Colonnade
Canary Wharf
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E14 4PU

28 March 2022

Dear Mr Jonathan Brearley,

Ofgem's decision to load the cost of failing energy suppliers onto the standing charge element of energy bills is unjust to people who are on low incomes, who must still pay the standing charge however little energy they use. This decision takes badly needed money from budgets for heating and food, and endangers people's health and even lives. The policy must urgently be changed, along with your earlier decision to switch more network charges onto the standing charge.

The government and suppliers spent decades telling customers that the solution to high energy bills was to "open up the market" to new suppliers, and for everyone to switch. Competition has spectacularly failed to produce a sustainable market, and now those who are least responsible for the crisis and least able to afford it are being forced to pick up the costs of this failure.

From April 2022, consumers on the standard default tariff will face an 80% increase in the average electricity daily standing charge (0.25p to 0.45p) in addition to the swingeing increases in unit charges: the 75% increase in the gas unit charge and 33% increase in the electricity unit charge.¹

Fixed charges are well known to penalise the poorest energy users, who consume less energy. Ideal Economics has shown that the poorest 10% will now spend almost a third of their energy payments (c.£265) on merely connecting to the energy system, leaving them much less to

¹ <https://www.ofgem.gov.uk/information-consumers/energy-advice-households/check-if-energy-price-cap-affects-you>

spend on heating their homes, cooking and lighting.² This is deeply regressive, and unacceptable.

We believe Ofgem should stop discriminating against energy users who can afford it least.

The poorest consumers are paying for negligent policymaking:

What is more outrageous is that this increase in fixed costs is driven by the cost of supplier failures. They account for roughly £68 of the £75 increase³ in the standing charge. It means that poorer consumers are footing the bill for:

- The dodgy suppliers who chased consumers at a loss;
- Ofgem, whose flawed price cap methodology created perverse incentives for suppliers, exposing them to rises in wholesale prices, and who failed to regulate suppliers' creditworthiness;
- Government, who failed on basic energy security by not investing in gas storage.

The Standing Charge is already a regressive policy

Fuel Poverty Action has long campaigned against the Standing Charge as regressive. **With [Energy For All](#), we are proposing to turn this unfair and carbon-friendly structure on its head: instead of paying an exorbitant standing charge for simply connecting to the system, everyone would be given a free energy allowance to cover the basics of heating, cooking and lighting, taking account of their needs related to their age, health, and housing.**

This means that poorer consumers are protected, and have the security to meet basic needs. It could be funded at least in part by a windfall tax on energy and withdrawal of the fossil fuel subsidies that cost the UK government millions of pounds every day. We also propose that wealthy consumers who can afford it pay for their higher energy usage, above this basic allowance, via an increase in the unit charge. Increasing the unit charge in this way has the additional benefit of incentivising reduced energy use, and therefore reduced fossil fuel consumption.

Energy For All has enthusiastic popular support – our petition has reached over 300,000 signatures. The proposal has stirred much interest in political parties, in the EU, among pensioners, and elsewhere. There are also moves in this direction in several other countries.⁴ We realise that such a change in pricing structure requires a lot of working out, and we ask you to begin now to consider how it can be designed and brought into effect.

But in the meantime, the injustice of the standing charge must urgently be addressed. While moving towards abolition of the standing charge, this charge should at least be

² See Ideal Economics, <https://idealeconomics.com/wp-content/uploads/2022/02/The-high-level-of-standing-charges-in-the-energy-price-cap-1.pdf>. If what they have available for energy stays the same, this remainder will average around £666 per year.

³ Ideal Economics, as above

⁴ Presently including Norway, Mexico, and Honduras.

dramatically reduced, and the costs of providing supply of last resort when companies fail should be urgently removed from it.

In tandem with this change, we ask you to reconsider urgently the injustice of prepayment meter (PPM) charges: another way in which people with least resources are forced to pay more for energy than their better-off neighbours. PPM charges are higher than charges for people on direct debits. While this has been justified on grounds of cost⁵, people on prepayment meters in effect make an interest free loan to their supplier, always pay on time, and eliminate the cost of chasing debts. They should not be paying more. **Moreover, forced and sometimes traumatic imposition of PPMs (which are unknown in most of Europe) has become the UK's way of disconnecting customers.** Even the official safeguards are often disregarded and such meters are installed when they are not safe or suitable for the customer. There should be an end to this practice: PPMs should be a voluntary option.

Combined with high standing charges, PPMs can be lethal. After a period of low or non-existent energy usage, people on prepayment meters must find huge unattainable sums to top up the meter with their standing charge, before they can draw out any energy.

To continue these punitive policies on standing charges and prepayment meters in the face of the current price rises is unacceptable. It will cause deaths. We ask you to urgently reconsider.

In summary, we ask you to implement some immediate and some more substantial changes:

- Stop financing the cost of failed suppliers from the standing charge on customers' bills
- Drastically reduce standing charges.
- Work towards eliminating standing charges altogether, as a move towards Energy for All.
- Stop charging prepayment customers more than people who pay bills by direct debit
- No imposition of prepayment meters - these should be a voluntary option, not a weapon against people who run into debt.
- Energy for All: free energy to cover basic needs, to be paid for by a windfall tax on energy companies' profits, the ending of subsidies to fossil fuels, and higher prices for profligate energy use by people who can afford it.

We look forward to hearing from you.

Isabel Davies

⁵ We hope you will investigate claims that the price of PPMs and other meters is inflated