



Llywodraeth Cymru  
Welsh Government

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# Ofgem call for input on standing charges: response from the Welsh Government

Our written response to Ofgem's call for input on reforming standing charges.

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# Contents

**Context**

**Regional variations**

**Low income and low usage customers**

**Support for the net zero transition**

**Content of standing charges**

**Future changes to standing charges**

**Prepayment meters (PPM)**

**Social tariff / Medical tariff as a mitigation measure**

**Conclusion**

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## Context

The Welsh Government welcomes Ofgem's Call for Input on Standing Charges. We have repeatedly called on the UK Government and Ofgem to reform standing charges as they are fundamentally unfair to people living in Wales. However, we are acutely aware that simply transferring these costs into volumetric charges would result in negative impacts on households that have no choice but to use large amounts of energy, such as those reliant on the use of medical devices at home.

Our preferred solution is a holistic review of retail charges to include the abolition of standing charges, the introduction of a social tariff and/or medical tariff and the rebalancing of gas and electricity costs. We are also aware that the Review of Electricity Market Arrangements may also have an impact on customers, including differential geographical impacts under certain scenarios. Considering impacts in the round at this stage could ensure decision makers in the UK Government and Ofgem set a path towards a just transition and an environment supportive of consumer investment in low carbon technologies.

## Regional variations

The postcode lottery of standing charges is unacceptable. Customers have no direct influence over these costs, nor are there measures they can reasonably take to reduce or avoid them, given the lack of variation in tariffs available on the market. Customers in North Wales pay the highest standing charges in Great Britain, while those in South Wales also pay above average charges.

Households in North Wales feel particularly hard done by. They live close to large sources of affordable, renewable electricity which is exported from the region through the national grid, yet they face the highest standing charges in

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Great Britain.

While there are other arguments to remove standing charges completely, implementing a flat rate across all regions of Great Britain would be a step in the right direction.

The Welsh Government welcomes the consideration Ofgem is giving to the geographical impacts of a hypothetical transfer of costs from standing to volumetric charges, which suggest such a transfer would have a detrimental impact on domestic customers in Wales. The high percentage of rural and off-gas properties may have an impact on this modelled impact, and we would appreciate further conversations with Ofgem on this point.

## Low income and low usage customers

The high standing charges in Wales, coupled with the more than doubling of the charge since 2021, has a disproportionate impact on lower income households and those who consume less energy. This risks the health and wellbeing of low-income households and reduces the incentive for other households to save energy.

As set out above, the Welsh Government welcomes the analysis Ofgem have undertaken to understand the impact on lower income households of hypothetically moving the costs from standing charges to volumetric costs. Overall, this would have a beneficial impact on lower income households, but there would be some high usage households in this group who would lose out and, notably, those who lose out would be impacted negatively at more than twice the scale of those who benefit. Mitigating impacts on those households is essential if the decision were to be taken to shift the costs.

An example of mitigation might be the introduction of a social tariff or tariffs,

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which the Welsh Government has called for over several years. This might include a medical tariff for those reliant on medical equipment or electric heating to keep warm. We recognise the Welsh Government can also play its part alongside the UK Government in improving the conditions of privately rented properties and supporting householders to improve poorly insulated and energy inefficient properties.

## Support for the net zero transition

There are clearly rehearsed arguments that transferring standing charges to unit costs incentivises customers to reduce their energy use. As Ofgem have set out in the call for input, the opposite argument can also be made when considering the affordability of some low-carbon technologies.

The primary incentive for encouraging electrification will be the rebalancing of gas and electricity prices, which will have a far greater impact on the attractiveness of low carbon technologies than changes to standing charges. For this reason, a holistic view must be taken across these different policy challenges.

## Content of standing charges

The policy and environmental costs element of the standing charge was a relatively significant portion of the standing charge before the Targeted Charging Review came into effect. The position of the Welsh Government is that the cost of transitioning to net zero should be met through general taxation and not a charge on energy users.

While Supplier of Last Resort costs surged in 2021 and 2022 before tailing off, it

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is not inconceivable that a similar market shock might occur in the future. It is our view that Ofgem should ensure arrangements are in place to limit as far as possible the likelihood of the market incurring such costs in the future, building on their response to the recent global energy crisis, and that there is an alternative source of funding available to cover these costs in future should the need arise.

The Welsh Government welcomes the decision by Ofgem to conduct post-implementation analysis of the Targeted Charging Review, in particular its consideration of impacts on lower usage customers and on potential mitigating actions. It is not fair that consumers with very low consumption should bear a disproportionately high share of network maintenance costs, in particular those on low incomes, and we support a social tariff to mitigate these costs, and universal access to tariffs based solely on consumption to encourage others to reduce their energy usage.

## Future changes to standing charges

Ofgem points to likely increases in charges under the electricity nil consumption cap level in 2024/25. They also highlight UK Government policy to support Energy Intensive Industries (EEI) with their energy costs by applying an EEI levy to the bills of other consumers. In developing any EEI levy, the UK Government must consider impacts on lower income and vulnerable households. Solutions such as a social tariff should be considered as part of a holistic package to ensure policy outcomes are achieved and unintended detrimental impacts avoided.

The considerable investment needed to transform our electricity and make it fit for the future will inevitably come at considerable cost. While there are options to reduce impact on today's customer, there will inevitably be increased costs over the coming decade. It should not be assumed that these costs are best met

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through yet further increases in standing charges.

## **Prepayment meters (PPM)**

The Welsh Government, alongside many consumer groups and charities, have previously raised concerns over the higher rate of standing charges previously applied to PPM customers. We welcomed the temporary measure to align costs for prepayment meter and direct debit customers through a discount for PPM customers. We now support Ofgem's preference for levelling prepayment meter and direct debit standing charges, should the decision favour the retention of a standing charge in the future.

Further, we would encourage Ofgem to go further to support our poorest households on prepayment meters by absorbing the standing charges costs entirely following a period of self-disconnection. A small rebalancing in favour of the interests of poorest consumers should be explored, while recognising the general expectation for customers to meet delivery costs.

## **Social tariff / Medical tariff as a mitigation measure**

The Welsh Government has consistently and repeatedly called on the UK Government to introduce a social tariff to protect the most vulnerable householders. We believe that a social tariff should be part of the conversation around standing charges. The Chancellor made a commitment in his Autumn Statement in 2022 to develop a new approach to consumer protection, including the option of a social tariff to apply from April 2024. We are now in another challenging winter, and it is very concerning that we have yet to see anything further on this commitment.

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A social tariff would support low-income households and help protect them from rising costs including changes to the standing charges. While we recognise the introduction of a social tariff is a matter for the UK Government rather than Ofgem, we urge Ofgem to consider how such a tariff could be used as a mitigating measure alongside standing charges reform.

## Conclusion

The current standing charges regime is failing lower income households, its geographical distributional impacts are unacceptable to households in Wales and low energy users have no meaningful alternative, given the lack of diversity in tariffs. We would encourage Ofgem and the UK Government to act holistically across the policy landscape to remove this injustice and protect vulnerable households through measures such as a social tariff, including provision for households with medical needs. Given the complexity and potential timescales involved in implementing widescale reform, a good first step would be to equalise standing charges across the regions of Great Britain.

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