Scottish Pensioners' Forum
Address: Margaret Irwin Centre
8 Landressy Street, Glasgow G40 1BP
Telephone: 0141 337 8113
Email: spf@stuc.org.uk
www.scottishpensioners.org.uk

This response may be published with the name of our organisation

This response may be shared with other departments dealing with this consultation

We may be contacted again, if necessary, to discuss the details of our response

Scottish Pensioners' Forum Response:
OFGEM – Standing Charges: Call for Input
Contact: James Crump , Retail Directorate

The Scottish Pensioners' Forum (SPF) argues that the present basis for determining the levels of Standing Charges, and the various levies that they now encompass, as well as energy pricing in general, demand a wholesale review, with meaningful public participation. Until then any redistribution of costs within the existing structure is flawed from the outset. Rather than moving the deckchairs, such a process will simply spread contagion within a system that is seen by consumers as increasingly unfit for purpose.

The following comments should be taken in this context

1. As a result of the exponential growth in the number and extent of the various 'obligations' that have been loaded onto energy daily Standing Charges, their original principal justification, the basic cost of supplying a domestic property, has been lost.

2. A whole raft of Additional Policy Costs (Renewable Obligations, Feed-in Tariffs, Energy Company Obligations, Warm Homes Discount, Green Levies, Contracts of Difference and the like) have been loaded onto consumer bills, so they now represent a substantial proportion of them.

3. Consumers have no ready means of identifying the various elements comprising their Standing Charges, or their bills as a whole. It is easier to obtain a budget breakdown from a Local Government Council Tax bill.

4. We appreciate that many of these additional charges that consumers are expected to bear are the result of Government policy decisions, and are in effect impositions or stealth taxes which enable the Government to shuffle off its responsibilities onto the shoulders of consumers whether they have the ability to afford them or not.

5. VAT is even levied on top of Standing Charges – a tax on an impost; the American Colonists in the 18th Century clearly demonstrated their belief that taxation was conditional on representation. Today's consumers do not have a say in the taxation applied to their energy bills.

6. Levels of accrued consumer debt are as much an indicator of Governments' failure to ensure benefit and pension payments match the cost of living as the rise in in energy prices. More than one in five adults have reported being unable to keep warm in their own homes because of their energy costs. A third of Scottish households are reckoned to be living in a state of fuel poverty, with a quarter in extreme fuel poverty. The proportion of pensioners in these categories is higher, especially in rural areas, as well as those not connected to mains gas.

7. Regional disparities in Standing Charge levels are difficult to justify, not least because the calculations which underpin them are hard to quantify. Does it really cost significantly more to deliver electricity to North Wales and Merseyside than to London? In the absence of any evidence to the contrary we assume that company financial considerations, as much as the cost of their respective infrastructures, determine ratios between Standing Charges and Unit Charges. Is it a coincidence that the areas with the highest level of Standing Charges are Merseyside and Southern Scotland, both supplied by Scottish Power, which is heavily indebted to its parent company, Iberdrola, with the costs of its purchase back-loaded onto its balance sheets?

8. Scotland's energy prices remain above the UK average. This is seen as a total irony since Scotland is a net exporter of energy, sending some 19TWh of electricity to the rest of the UK

through the Grid and Interconnectors. Largely thanks to disparities in Standing Charges a Scottish low user pays up to £1 a week more than his / her London equivalent.

9. More generally consumers living in single-person or small households, such as pensioners, pay a disproportionate share of the compulsory levies, irrespective of their means.

10. We continue to emphasise the inequity of a situation where consumers are expected to bear the costs of supplier failure, especially when these have been recognised as a product of a 'light-touch' regulatory regime that which actively encouraged, in the name of 'competition', new entrants into the market, who lacked both the necessary capital and expertise. Customer balances are still not afforded full protection, with companies allowed to use them as working capital. If a business makes a wrong call, its bottom line, rather than consumer pockets, should take the hit.

11. Suppliers' hedging decisions are surely matters of commercial judgement. If they get them wrong, they, not consumers, should pay the penalty. Presumably, if they get them right, they retain the benefit rather than paying customers a dividend. Hedging is effectively gambling on futures markets and carries its own particular risks. We would not expect punters losing at the bookies to recoup their losses from the general public, so why the energy companies?

12. The level of nominal consumer debt being carried by the suppliers is testament to unprecedented price inflation. To expect consumers who have paid their way, often at considerable self-sacrifice, to make up the shortfall represents an example of the poor paying for the poor, a criticism levelled at English Poor Law provision at the beginning of the 19th Century. Levying these charges effectively represents downward 'levelisation' for many.

13. Our members are sceptical of the value of the Smart Metering programme, not least because of well-publicised inaccuracies and billing issues. Expecting consumers to pay for their installation when ultimately suppliers retain ownership of the equipment and benefit from their ability to monitor consumption remotely, dispense with their meter readers, as well as switch consumers between tariffs.

14. The present disproportionate degree to which Standing Charges dominate energy bills acts as a disincentive for consumers to adopt energy saving measures since the resultant cost benefit is relatively miniscule. Switching off lights will not have a significant effect on total bills.

15. Ofgem's basic cost allowances and profit margins assumed for energy suppliers are relatively generous and have resulted in increased profits for players in the market, especially in the context of price inflation. In the privatised energy market's multi-tiered structure, layers of complexity rather than accountability have been created, with profits extracted at every stage.

16. If a Standing Charge, reflecting only the basic cost of delivering a domestic supply, rather than the additional charges presently in place, is retained, it would presumably be paid at the same level by all consumers irrespective of payment method.

17. In such a scenario, a tiered energy price structure could also reflect both basic consumer needs, seasonality and the UK's climate diversity. This is already the case in many overseas jurisdictions where lower unit prices apply to a realistic base level of consumption, and use of additional units are charged at a premium. Billing could thus easily become more transparent, itemising the basic Standing Charge, Levies and Policy add-ons, company administrative costs, and actual energy consumption at basic and supplementary rates.