

# Consultation Response

## Introducing a zero standing charge energy price cap variant

**Office for Gas and Electricity Markets (Ofgem)**

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## About this consultation

In August 2024, Ofgem research found that many consumers wanted to reduce, significantly change or remove standing charges entirely. Many of these consumers shared that they would prefer to pay for their energy based only on use (unit rates) rather than also paying a standing charge.

Ofgem is now looking to create a zero standing charge option that allows consumers to choose how they contribute to these costs. In this consultation, Ofgem explains the different ways this could work and other details, such as how consumers might get onto the tariff.

Ofgem is not developing this option with the aim of creating financial savings for particular groups of consumers but have other work ongoing, for example [introducing a debt relief scheme](#) to address issues regarding energy affordability.

## Key points and recommendations

- Ofgem should trial the introduction of zero standing charge tariffs with energy suppliers to collect consistent qualitative and quantitative data that can inform the case for change.
- Ofgem should not proceed with these reforms without clear mitigations to prevent consumers from over-contributing to the fixed costs that suppliers incur.
- Ofgem could focus on reforms for groups which are particularly harmed by high standing charges – such as prepayment users.
- If zero standing charge tariffs are introduced, there must be clear guidance for suppliers in terms of how to communicate the estimated costs and risks of being on a zero standing charge tariff.
- Neither a rising nor falling block tariff are easily understandable solutions for consumers. If Ofgem proceeds with its plans to introduce a zero standing charge tariff, the single unit rate option is the only option which will deliver the intended policy outcomes.

## About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

## **Executive Summary**

### **There is a high-risk of adding to affordability pressures**

Age UK recognises the high level of support for Ofgem to act on standing charges. Standing charges have risen significantly over the past few years and will continue to rise in order to fund the expansion of electricity networks. However, Age UK is concerned that the measures outlined in this consultation, which aim to give consumers more control over how they pay for their energy, carry considerable risk of leaving older people paying much more for their energy.

While, in principle, some consumers may choose to pay more in order to not have a standing charge, consumers who do not understand that a zero standing charge tariff could be more expensive for them will still be able to access the tariff. There are significant unknowns within these proposals, including the number of consumers who may choose to adopt a zero standing charge tariff, and their combined consumption levels. Additionally, consumers' preferences for the style of a zero standing charge tariff, such as whether it is a block tariff or a single-rate tariff, has not been explored. Until Ofgem has greater clarity on these issues, Age UK cannot support the rollout of a zero standing charge cap variant.

### **Standing Charge reforms need to be understandable**

Many consumers do not understand the numerical element of the information they receive. Remarkably, around 20 million of the working-age population of England have the numeracy level that is expected of primary school children. That's around half of the working-age population. The equivalent figure for literacy is around 6 million adults. Age UK's own report into literacy and numeracy skills among older people show that around 9 million working-age adults in the UK have low literacy or numeracy skills. For older adults (aged 50 and over), an estimated 6 million have difficulties with maths, and the same number have difficulties with literacy.<sup>i</sup> We are concerned that many of this cohort would find it difficult to ascertain whether they would be better off, and might be susceptible to being convinced to sign up to a more expensive tariff by unscrupulous suppliers.

In addition, analysis by Plain Numbers<sup>ii</sup> demonstrates that there is a significant distinction between how consumers perceive their ability to understand this information, and their actual understanding of that information.

The ability of consumers to understand these policy proposals should be a significant factor in how Ofgem decides to proceed. If a notable number of consumers who do not benefit from a zero standing charge tariff do opt-in, there would over-contribution towards

the fixed costs that suppliers incur, in addition to increased levels of fuel poverty – contrary to the Government’s aim of reducing this.

### **Ofgem should trial the introduction of zero standing charge tariffs**

Under the current proposals, if Ofgem proceeds with the creation of new zero standing charge tariffs, there must a strong focus on measures that ensure consumers are:

- Aware of the risks of moving to a zero standing charge tariff
- Prevent suppliers from over-recovering costs they incur
- Not left worse-off overall compared to a do-nothing scenario.

To identify what these measures should be. Ofgem should test the assumptions and scenarios that underpin these policy proposals.

Age UK would like Ofgem to work with energy suppliers to trial zero standing charge tariffs. Trialling these tariffs would provide an opportunity for Ofgem to understand how suppliers would approach the setting of guardrails, tariff structure, and prices of those tariffs in order to mitigate the risk of under recovery for suppliers, or over contribution from consumers. A trial approach would generate consistent qualitative and quantitative data which can be used to update the case for change and enable Ofgem to decide which, if any, interventions are necessary.

## Consultation questions

### **1. Do you have any views on our case for change, including the potential consumer benefit of zero standing charge tariff options?**

Yes. Age UK recognises the high level of support for Ofgem to act on standing charges. Standing charges have risen significantly over the past few years and will continue to rise to fund the expansion of electricity networks as well as allowing energy suppliers to recover other fixed costs.

When Ofgem has consulted on standing charges in the past, tens of thousands of consumers responded to express their dissatisfaction with the current system, feeling that standing charges are unneeded, unfair and confusing. Many said that reducing or removing standing charges would make it easier for them to manage their bills, or to pay back and avoid debt.

The two primary concerns with standing charges that most stakeholders share are that they will continue to rise indefinitely, and that they disproportionately impact prepayment users. The proposals in this consultation deal with neither of these issues.

The proposed policy changes that are being considered in this consultation intend to offer consumers a greater degree of control over their energy bills, while maintaining the protection of the energy price cap, and continuing to have regard for suppliers' ability to finance their activities. However, Age UK believes there is a high likelihood that these proposals could leave consumers worse-off overall. By creating flexibility in how suppliers recover their costs, it is difficult to avoid reducing the protection provided by the energy price cap.

In terms of the potential benefit of introducing zero standing charge tariff options, Age UK believes that the potential benefits, such as incentivising the efficient use of energy or giving consumers a greater sense of control, are clearly outweighed by the risk of households paying more to use the same amount of energy. As a result, Age UK do not support the proposals to introduce a zero standing charge variant in this way. Instead, Ofgem should trial the introduction of zero standing charge tariffs with energy suppliers.

Trialling these tariffs would provide an opportunity for Ofgem to understand how suppliers would approach the setting of guardrails, tariff structure, and prices of those tariffs in order to mitigate the risk of under recovery for suppliers, or over contribution from consumers. A trial approach would generate consistent qualitative and quantitative data which can be used to update the case for change and enable Ofgem to decide which, if any, interventions are necessary.

## **2. Do you agree that introducing a zero standing charge variant is an effective way for us to achieve our case for change?**

In the Standing Charges options paper from 2024, Ofgem highlighted that internal modelling identified around 15 million households that would be worse-off from a redistribution of costs from the standing charge to the unit rate. This compares to around 11 million households which could see a benefit. Under these proposed changes, Age UK would like to see similar analysis of how many households would be better or worse off under any of the zero standing charge options, assuming all households had the ability to opt-in.

Since the zero standing charge tariffs being proposed in this consultation have a risk premium, which intends to prevent a revenue gap for suppliers, the consumption level at which a household will be worse-off from cost redistribution is much lower compared to the options presented at the last round of consultation.

For example, under the single-rate tariff proposal, any household consuming just over half of the Typical Domestic Consumption Value<sup>iii</sup> would find themselves paying more for their energy under this option.

That means a consumer with high energy needs, such as those with disabilities or long-term health conditions, could find themselves paying hundreds-of-pounds more per year if they opt-in to a zero standing charge variant. Under the previous proposals that Ofgem was considering, which included a range of cost redistribution from £20-£100, the increased costs that these consumers would face was much lower.

Consumers feel standing charges are unneeded, unfair and confusing. Apart from the single-rate zero standing charge tariff, Age UK believes the proposals for introducing a zero standing charge variant would create more confusion, not less. Additionally, the introduction of rising or falling block tariffs risk signalling that consumers should be rationing their usage in order to minimise costs.

This creates significant problems: if Ofgem proceeds to introduce a zero standing charge variant, how can it be sure that consumers who opt-in are aware of the higher prices they are likely to incur? Also, should consumers be protected from inadvertently opting-in to a tariff that is against their own interest?

If consumers do not understand that a zero standing charge variant could cost them more, in addition they are more likely to find themselves falling behind on payments. That could create additional costs that need to be socialised across all consumers over the medium and long term.

### **3. What alternatives should we consider to achieve the case for change?**

As mentioned above, responses to previous consultation rounds have demonstrated that consumers feel that standing charges are unneeded, unfair and confusing. By removing standing charges, there is significant potential for vulnerable consumers to lose out, and for suppliers to over-recover the fixed costs they incur. However, Ofgem can take action to make standing charges fairer and less confusing.

One way of achieving this would be to focus on reforming standing for groups that are most affected by them, such as prepayment users. During periods of self-disconnection, standing charges build up as a debt on the meter that must be repaid in full before a household can re-access its energy supply. That means a consumer can be left without access to heat if, for instance, they avoid topping up their gas prepayment meter during summer months.

To reduce consumers' perception of unfairness over high standing charges, Ofgem could implement measures such as moving standing charge debt to the "back of the meter", requiring partial repayment of debt to access supply.

Additionally, Ofgem could focus on addressing the continual rise of standing charges. For instance, some network costs could be recovered by the unit rate. Or standing charges could be capped as a proportion of the typical energy bill.

### **4. What views do you have on the various structures that we could adopt to allow consumers to contribute to fixed costs through a unit rate rather than a standing charge?**

We do not support the introduction of either a rising or falling block tariff. These options risk signalling to consumers that using less energy is better. While Age UK support the efficient use of energy, we are concerned that there is a high risk of confusion and misunderstanding, leading to detriment, associated with these tariffs.

If Ofgem proceed with the introduction of a zero standing charge cap variant, a single rate approach would be preferable. However, it should be noted that Age UK believe that there would need to be clear protections in place to prevent consumers from moving onto a zero standing charge variant or moving onto it without fully understanding the risks of doing so.

This reinforces the need for Ofgem should take a measured approach to introducing zero standing charge tariffs. Age UK hope that Ofgem would trial the introduction of any variant. By trialling the tariffs, Ofgem work with suppliers to better understand how many consumers want to access the tariff, who those consumers are and how much they consume.

## **6. How do we best manage the risk of under recovery of fixed costs in the interest of consumers?**

There are two ways of managing the risk of under-recovery. The first is by ensuring enough high-usage consumers voluntarily over-contribute, to match or outweigh the under-recovery from low-usage consumers. The second is to spread the costs across all consumers – including those who do not opt-in – even though these consumers would then be paying more but not benefitting from the variant.

Until there is a clearer picture of actual consumer behaviour following the introduction of a zero standing charge cap variant, there is no clear way of knowing the risk of under recovery. Consequently, there is a high likelihood that the measures put in place to mitigate under recovery will be too strong, or potentially too weak. That is why we feel strongly that the fairest approach to managing an under recovery of fixed costs is for Ofgem to trial and phase in the introduction of a zero standing charge cap.

One approach to managing this risk, which is highlighted in the consultation document, is for Ofgem to introduce an initial true-up, so that any over-recovery is then paid back to consumers through lower rates at the next price cap setting. This would likely need to run for several periods in order to settle on an enduring level at which over or under recovery is minimal, and the true up could then be removed.

This approach would make the variant less attractive to consumers and could lead many to wait until the level of risk premium settles. A fairer approach would be, as mentioned, to trial the introduction of a variant, building a clearer picture of the estimated impact on supplier and consumer finances which can inform what interventions, if any, are needed.

## **7. What are your views on our assessment of the impacts and trade-offs of these options?**

The analysis presented is quite limited, capturing only the quantitative bill impacts, rather than any expectation of how a households experience with energy will change. Ofgem should look to test the options with real customers in a variety of situation, to understand what potential outcomes could be in terms of energy use, rationing and debt.

It is disappointing that there has been no effort to meaningfully compare the different options, with little discussion about the pros and cons of each. The result of this is that it is very difficult to judge which would be preferable for different groups of consumers.

## **8. Please share your feedback on the potential criteria and process for joining and leaving the zero standing charge price cap variant.**



An opt-in approach is sensible in the context of these proposed changes. Though creating an active choice for consumers on their tariff structure could have unintended consequences. While a minority of consumers may value control and choice over just cost saving, some consumers may find it hard to understand the choice available to them.

Many consumers do not understand the numerical element of the information they receive. Remarkably, around 20 million of the working-age population of England have the numeracy level that is expected of primary school children. That's around half of the working-age population. The equivalent figure for literacy is around 6 million adults. In addition, analysis by Plain Numbers<sup>iv</sup> demonstrates that there is a significant distinction between how consumers perceive their ability to understand this information, and their actual understanding of that information.

Age UK's own report into literacy and numeracy skills among older people show that around 9 million working-age adults in the UK have low literacy or numeracy skills. For older adults (aged 50 and over), an estimated 6 million have difficulties with maths, and the same number have difficulties with literacy.<sup>v</sup> We are concerned that many of this cohort would find it difficult to ascertain whether they would be better off, and might be susceptible to being convinced to sign up to a more expensive tariff by unscrupulous suppliers.

The ability of consumers to understand these policy proposals should be a priority for Ofgem in developing the variant. Consumer understanding is a key pillar of Ofgem's Consumer Confidence Plan. If a significant number of consumers who do not benefit from a zero standing charge tariff were to opt-in, there would be over-contribution towards the fixed costs that suppliers incur, in addition to increased levels of fuel poverty.

In theory, this may be mitigated by existing supplier duties to offer guidance to consumers on which tariff would be best for them. Suppliers would also need to offer suitable advice based on individual consumption patterns in determining if the variant is right for them. This could fall under suppliers' existing consumer duties such as the requirement to provide tariff information labels and cheapest tariff messaging.

**9. Considering our assessment of the challenges and opportunities around non-smart meters, prepayment meters and multi-rate meters, what could be done in these areas to support the success of a zero standing charge price cap variant?**

There is merit in considering targeted approaches for prepayment meters or implementing distinct strategies for them. Prepayment users are clearly impacted by high standing charges, and as a result would be most likely to benefit from the proposals. During periods

of self-disconnection, standing charges build up as a debt on the meter that must be repaid in full before a household can re-access its energy supply. That means a consumer can be left without access to heat if, for instance, they avoid topping up their gas prepayment meter during summer months.

**10. Do you have any views on how suppliers could offer block tariffs to consumers without smart meters?**

Age UK believes that block tariffs should not be available to consumers without smart meters. Because of the risks associated with block tariffs, detailed above, it is vital that consumers have visibility of how much their energy is costing them. Even then, it is dubious that most consumers would be able to understand the precise amount they would need to pay for their energy. Also, the tariff would act as a disincentive to using energy, including keeping the heating on in the winter, as older people would be aware that an additional unit might have a higher price – our experience leads us to believe that this would be enough to dissuade significant numbers from adequately heating their homes.

**11. What support should be in place for consumers in deciding if the variant is the right tariff for them?**

Collaboration with trusted intermediaries to provide tailored advice to vulnerable customers could help consumers to make the choice that is best for them. Intermediaries can effectively communicate the trade-offs associated with different tariff options, ensuring that consumers make informed decisions.

Suppliers should also provide clear information on energy bills, including information that illustrates the financial impact of choosing the zero standing charge tariff. For example, provide a comparison showing how much consumers would have saved or spent if they had opted for this tariff in the previous year. This transparency will empower consumers to make more informed choices.

**13. Please share your views on trialling or phasing implementation, and how this might work effectively.**

These proposals depend on assumptions and scenarios around consumers' appetite to accept higher prices (in most cases), in order to simplify their energy bills. These assumptions have not been tested and, as a result, may deliver outcomes worse than anticipated.

Age UK would like Ofgem to work with energy suppliers to trial zero standing charge tariffs. Trialling these tariffs would provide an opportunity for Ofgem to understand how

suppliers would approach the setting of guardrails, tariff structure, and prices of those tariffs in order to mitigate the risk of under recovery for suppliers, or over contribution from consumers. A trial approach would generate consistent qualitative and quantitative data which can be used to update the case for change and enable Ofgem to decide which, if any, interventions are necessary.

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<sup>i</sup> Age UK / Learning and Work Institute (2024), Older people and essential skills

<sup>ii</sup> Analysis by [Plain Numbers](#)

<sup>iii</sup> Typical Domestic Consumption Value (TDCV) is set at 2,700 kWh for electricity and 11500 kWh for gas.

<sup>iv</sup> Analysis by [Plain Numbers](#)

<sup>v</sup> Age UK / Learning and Work Institute (2024), Older people and essential skills