# Ofgem considers higher standing charges for wealthier households amid energy cost debate



The UK energy regulator Ofgem is considering the introduction of progressive pricing on household electricity standing charges, a move that would see wealthier households pay higher fees for the fixed costs associated with energy supply. These standing charges, which currently form about 10% of the average energy bill, cover policy costs such as smart meter installation and crucial network upgrades.

Currently, the daily cap for standing charges stands at 53.8p, amounting to approximately £200 annually per household. Under the proposed model, this charge could potentially double for households in higher council tax bands F to H+—a category encompassing roughly three million homes primarily in the South East and London. This adjustment would raise an estimated £600 million per year. Expanding the scope to include band E homes could double that revenue, pending the assumption that increased charges would not discourage consumption or alter household behaviour.

Andy Mayer, Chief Operations Officer and Energy Analyst at the Institute of Economic Affairs, expressed scepticism about the policy's effectiveness. Writing in CapX, Mayer questioned the appropriateness of treating energy bills like taxes. He noted that while society accepts progressive taxation for services such as education, healthcare, and defence, energy bills traditionally reflect consumption and cost, not wealth. Mayer wrote, "Our energy bills are not taxes, and progressive pricing in markets usually services discrete customer needs, such as per unit discounts on bulk purchases for your best customers. Ofgem’s plans are more like pricing as class war."

The concept of the national grid as a social good is long established, with historical precedents dating to the early 20th century when the Central Electricity Board was created as a state corporation using a mix of taxpayer funding and loans. This entity integrated various regional systems into the National Grid, recouping costs through charges levied on both energy generators and consumers. Mayer warned that altering this model to impose what he called a "Labour’s pylon tax" could have unintended consequences, including distorting incentives and provoking political disputes.

Furthermore, Mayer highlighted that wealthier Britons have been among the most proactive in adopting Net-Zero initiatives and new technologies such as electric vehicles and heat pumps. However, the proposed increase in standing charges for higher-income households could dissuade some from continuing on this path. "Their thanks from the Government will be to add 10% to the cost of running both," Mayer wrote. He argued that this could not only slow adoption rates but also turn some supporters into opponents, particularly those who already perceive infrastructure such as pylons as visual pollution.

An additional concern raised was that higher charges might incentivise better-off communities and individuals to disconnect from the grid entirely, undermining the collective benefits of an integrated energy system. This shift, Mayer cautioned, would replace cooperative solutions with divisive fiscal policies, potentially weakening the social fabric that supports shared infrastructure.

The potential political and economic ramifications were also discussed. The government might attempt to mitigate backlash by distributing some of the electricity policy costs onto gas bills or through general taxation, a strategy reportedly under consideration prior to these proposals. However, this could set a precedent for further sector-specific charges, such as on gas standing charges related to decommissioning costs, complicating the cost recovery landscape.

In Mayer’s view, the policy constitutes a "fiddly little change" that would generate limited revenue while alienating millions of motivated individuals, thereby complicating efforts to advance the Net-Zero agenda. He speculated that the prime minister’s office might hold a different view from the Secretary of State for Energy and Net Zero when assessing the proposal's overall impact.

The CapX article underscored the complexity of balancing cost recovery for energy infrastructure with the political and social dynamics of such pricing reforms. With no specific proposals yet finalised, the debate over progressive energy pricing remains a developing issue in the UK's wider energy and environmental policy discussions.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.ofgem.gov.uk/information-consumers/energy-advice-households/standing-charge-electricity-and-gas> - This Ofgem webpage explains the components of standing charges, which include costs for energy distribution, supplier business expenses, and government schemes like the Warm Home Discount.
* <https://actionnetwork.org/letters/demand-ofgem-gets-rid-of-standing-charges-instead-of-hiding-them> - This URL discusses public sentiment against standing charges, advocating for alternative tariff models like rising block tariffs without standing charges to address fairness in energy pricing.
* <https://consult.ofgem.gov.uk/energy-supply/standing-charges-domestic-retail-options/supporting_documents/standing_charges_domestic_retail_options.pdf> - This document from Ofgem explores options for adjusting standing charges, including shifting costs to unit rates, to promote consumer choice and fairness in the energy pricing structure.
* <https://ideas.energy/ideas/ofgems-zero-standing-charge-tariff-plans-what-it-means-for-consumers> - This article discusses Ofgem’s plans to introduce tariffs with zero standing charges, where costs would be shifted to unit rates, providing consumers with more pricing options.
* <https://www.ofgem.gov.uk/press-release/ofgem-drives-forward-plans-introduce-zero-standing-charge-tariffs> - Ofgem’s press release outlines its consultation on introducing tariffs with low or no standing charges, allowing energy suppliers to offer consumers more flexibility in paying energy bills.