



Federation of
Small Businesses

Jonathan Brearley
Chief Executive
Office of Gas & Electricity Markets
10 South Colonnade
London
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16 April 2024

Re: Standing Charges for small businesses

Dear Jonathan,

I'm writing to urge you to seize the moment and take decisive action on standing charges. It is encouraging to see the Secretary of State for Energy Security & Net Zero highlight her concern towards the issue in a recent letter to Ofgem. But we must go further; and I trust you will take this opportunity to recognise the specific, negative impact standing charges are having on small firms in your response.

We are pleased to be contributing to Ofgem's recent Standing Charges Call for Input. While wholesale gas and electricity prices have come down since their peak during the energy price crisis, we have received a sustained flow of correspondence from our membership, who are concerned about steep rises in their standing charges, oftentimes without explanation or notice.

Small firms find standing charges difficult to comprehend, and they can appear grossly unfair if it is unclear what costs they go towards. They can be particularly challenging for low energy users, for whom they make up a larger part of the bill, and those on prepayment. At the height of the energy price shock, standing charges in some cases tarnished the discount SMEs were supposed to enjoy under the Government-guaranteed Energy Bill Relief Scheme (EBRS).

However, we must emphasise the impact of standing charges on not just households, but business premises too. Ofgem should look at how these standing charge hikes compound the challenges and rising costs faced by SMEs, against a backdrop of brittle economic performance for the nation, and difficult trading conditions for many small firms, especially those in hospitality and retail.

SMEs can choose to limit their energy consumption to ensure that they do not pay higher consumption-related bills, but an increase in the standing charge places an inescapable financial burden on businesses merely for being connected to the grid. Standing charges in turn become a regressive form of billing on small businesses which dampens their growth, confidence, and ability to invest.

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One FSB member reported a staggering rise in their standing charges, from 70.94p per day in July 2021 to 969.64p per day in September 2023 – an increase that the customer was unaware of, and which amounted to over £3,500 per annum paid in standing charges, equating to a percentage surge of 1266.9% over two years.

Since we responded to Ofgem’s Call for Input, the cost of utilities continues to be cited as the main driver of increased costs for small businesses, with 62.5 per cent claiming so in FSB’s Small Business Index for Quarter 4 2023, compared to 57.3 per cent in Q3.

- There needs to be more effective communication to SMEs by Ofgem and energy suppliers around what constitutes ‘a standing charge’.
- Ofgem should also ensure there is appropriate market integrity between suppliers and standing charge rates based on the variables that go into a supplier’s calculation of standing charges.
- More should be done to tackle urban/rural and regional-based discrepancies when it comes to standing charges. The increased cost of standing charges for many rural small business customers relates to the complexity of getting energy to more remote locations, but this piles extra costs onto small businesses in rural locations, deepening existing rural/urban divides, and undermining efforts to level up more remote parts of the UK.
- We also urge Ofgem to ensure that standing charges are not used to cover the costs of Supplier of Last Resort (SoLR) procedures.
- We are pleased to be working with you on bill transparency - so small firms can see a cost breakdown and understand where payments are going to. We believe commission earned by Third Party Intermediaries should be identified in bill statements too.

We have greatly appreciated Ofgem’s determination to make the landscape better for non-domestic customers in recent times and we look forward to working with you on this. It is important that we look at the aforementioned areas so we can cement full integrity and trust in the energy market, after an extremely challenging few years for the small business community.

If interested, please could your office contact Senior Public Affairs Advisor Filippo Pollara on filippo.pollara@fsb.org.uk, or on 07817 838 961, to arrange a meeting in relation to the issues raised in this letter.

Kind regards,



Tina McKenzie MBE
Policy & Advocacy Chair