

# Committee Evidence Submission

## Energy Security and Net Zero Select Committee Inquiry: Energy Bills for Domestic Customers

Energy Security and Net Zero (ESNZ) Select Committee

January 2024

Contact: [roshni.mistry@ageuk.org.uk](mailto:roshni.mistry@ageuk.org.uk)

All rights reserved. Third parties may only reproduce this paper or parts of it for academic, educational or research purposes or where the prior consent of Age UK has been obtained for influencing or developing policy and practice.

Age UK  
7th Floor, One America Square  
17 Crosswall  
London  
EC3N 2LB  
T 0800 169 87 87 F 020 3033 1000  
E [policy@ageuk.org.uk](mailto:policy@ageuk.org.uk)  
[www.ageuk.org.uk](http://www.ageuk.org.uk)

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is 7th Floor, One America Square, 17 Crosswall, London, EC3N 2LB

## **About this inquiry**

The Energy Security and Net Zero (ESNZ) Committee launched this inquiry to investigate the process of billing customers for their gas and electricity. Their aim is to examine whether the rules on charging for energy are fair for everyone. Age UK welcomes the opportunity to respond to this inquiry.

## **Key points and recommendations**

- We support the principle of reforming standing charges in a way that meets fixed supply costs more progressively so long as mitigations are put in place to ensure this reform avoids negatively impacting those with vulnerabilities.
- Ofgem should consider setting an annual cap on the maximum amount a household would be expected to contribute towards supplier fixed costs.
- Older people paying for their energy via prepayment meter (PPM) or standard credit should not be unfairly penalised for using these methods of payment. Age UK is supportive of efforts to better equalise costs between these payment types and Direct Debit.
- Energy suppliers should be banned from forcibly switching customers to a PPM and switching smart meters to prepay mode without customer consent.
- The amount older people are charged should not be based on where they live – we recommend regional charging differentials be abolished.
- Age UK supports the introduction of an energy social tariff which substantively discounts the cost of energy for those in greatest need. Eligibility must include people on lower incomes, those with disabilities or long-term health conditions, and carers.
- The social tariff must deliver for older people not claiming means-tested benefits but still struggling with the cost of energy.
- This discount tariff must be progressively funded via general taxation to avoid customers having to cover the costs directly on their bills.

## **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.

## **1. What are the justifications for allowing or removing standing charges from energy bills?**

In principle Age UK is supportive of reforms to standing charges made in a way that enables the fixed costs of supply to be funded progressively and that make energy bills more transparent and less punitive for people who have self-disconnected. Following these principles is particularly important for older people on lower incomes who have self-disconnected their energy supply or are reliant on a prepayment meter (PPM). However, our support for reform is contingent on mitigations being put in place to ensure the negative effects of standing charge reform for specific older customer cohorts with vulnerabilities are comprehensively mitigated.

Research from Ofgem shows that reducing standing charges and moving them into volumetric (unit) costs will be progressive overall<sup>1</sup>, with higher benefits accruing for those on lower incomes. However, some customers on lower incomes would see their bills increase. This includes people with disabilities or long-term health conditions, those reliant on at-home medical equipment, retired households off the gas-grid, and homes reliant on electrical heating. While we support the principle of standing charge reform,<sup>2</sup> Ofgem and the Department for Energy Security and Net Zero (DESNZ) must be mindful of the negative distributional effects for certain customer groups and put in place mitigations to ensure that reform does not negatively impact them.

Sufficient mitigation for these groups must be a core component of any reform. We propose three mitigations which would help ensure older people with vulnerabilities are protected:

- Firstly, Ofgem should consider setting an annual cap on the maximum amount a household would be expected to contribute towards supplier fixed costs. Volumetric standing charges could then be removed from the bill once customers meet the annual threshold for contributions.
- Secondly, an exemption or reduction in volumetric standing charges for certain customer groups, such as those using at home medical equipment, should be implemented.
- Thirdly, standing charge exemptions should be explored for people who have self-disconnected their energy supply, to avoid the damaging consequences of customers continuing to accrue standing charge debt even after they have turned off their supply.

## **2. Should companies be allowed to provide cheaper bills to those who choose to pay by Direct Debit?**

Despite prepayment meter (PPM) and standard credit (SC) customers being more likely to be financially vulnerable<sup>3</sup>, it has traditionally been Direct Debit (DD) customers who received the cheapest deals. We want to see an energy market

where SC and PPM users are not unfairly charged relative to DD customers. Age UK supports Ofgem's efforts to better equalise costs across these payment types<sup>4</sup>.

Around 7% of households with a resident aged 60+ pay by SC, compared to 6% who pay by PPM, and 86% by DD<sup>5</sup>. A combination of firsthand accounts and our own research<sup>6</sup> indicate that the UK's older population are more likely to pay by SC and less likely to pay by PPM than younger households.

We are keen to see PPM and SC costs fall because financially vulnerable households are more likely to be paying by these methods<sup>7</sup> and they frequently face additional adversities in the energy market. Many older PPM customers have been forced onto this payment type because they have fallen behind on their bills. Older people paying by SC are frequently doing so because cash or cheque are their only available payment type or because they face barriers to paying by DD (e.g. because they do not have a bank account or internet access). These factors mean that many older people have no choice but to pay by SC or PPM, with a higher proportion being financially vulnerable.

Charging these customers higher prices therefore has clear implications for Ofgem's Public Sector Equality Duty obligations as it pertains to age<sup>8</sup> and its explicit statutory duty to ensure its policy decisions account for the interests of people of pensionable age<sup>9</sup>. We therefore strongly support reform which would better equalise the costs faced by SC, PPM, and DD customers.

### **3. Are pre-payment tariffs necessary to deter fraud and theft and, if so, are the rules in forcibly switching people to pre-payment properly policed?**

After flagrant breaches of Ofgem's previous rules around involuntary prepayment meter (PPM) installations, the regulator has brought in welcome changes to its guidance<sup>10</sup>. It's too early to tell if this new guidance is effective as it was only put in place in December, but in theory it should greatly improve outcomes for older customers and reduce the risk that they will face a forced installation under warrant.

Nevertheless, Age UK wants the Government to fully ban suppliers from forcibly switching customers onto a PPM and switching smart meters to prepay mode without customer consent. For all households who have had a PPM forcibly installed, we are calling for a PPM amnesty. These households should have the opportunity to have their PPM uninstalled immediately and receive adequate compensation.

### **4. Should there be greater use of discounts on energy for those who live closer to energy infrastructure?**

The Government announced in the Autumn Statement<sup>11</sup> that households close to transmission infrastructure (e.g. pylons and sub-stations) will receive discounted electricity bills. While this is a welcome measure, it fails to address the fundamental need for broader support. We recommend the Government implements a more comprehensive discount scheme for those struggling with their energy bills, regardless of how close they are to key infrastructure (see response to question 6).

## **5. Is it right to expect those in more remote areas of the country to pay higher amounts in standing charges?**

Electricity and gas customers should be billed consistently. At present customers pay different standing charges based on the region they live in<sup>12</sup>. These higher rates are particularly punitive in places like north Wales and Scotland<sup>13</sup>.

There are many older people living in rural communities and villages who face multiple challenges, including reduced transport links and having to travel greater distances to access essential services like GP appointments. Charging these households extra for their energy supply only adds to the difficulties they face.

To avoid a postcode lottery the amount people are charged should no longer be based on where they live. We encourage DESNZ and Ofgem to work together to abolish regional charging differentials.

## **6. How should a social tariff be implemented to address inequalities in billing?**

Age UK supports the introduction of a targeted discount energy deal. This social tariff<sup>14</sup> must deliver cheaper prices for those of all ages who are in greatest need – including people on lower incomes, those with disabilities or long-term health conditions, and carers. It should also represent a substantive reduction in costs to better enable older people to keep their heating on, especially through the winter months. The social tariff would operate in much the same way as the Energy Price Guarantee (EPG) in reducing the rates paid by eligible households, but it would also be much cheaper – by delivering support only to those in greatest need.

Implementation will require the Government to improve its ability to identify eligible households via data matching and avoid relying solely on the benefits system to deliver this support. Without doing this, people who do not have access to the welfare system but are still struggling on a lower income or are at greater risk of fuel poverty (e.g. those using at-home medical equipment) will miss out. This includes 800,000 pensioners who are eligible for Pension Credit but are missing out on this much needed support<sup>15</sup>, and many more who are just above the threshold for receiving benefits.

Our research<sup>16</sup> also highlights the importance of the Government funding the tariff directly. Paying for it via the tax system ensures a progressive funding mechanism which avoids the risk of an additional cost burden falling directly onto struggling bill payers.

- 
- <sup>1</sup> Ofgem, 2023. Standing Charges Call for Input. Ofgem. [Online]. Available at: <https://www.ofgem.gov.uk/publications/standing-charges-call-input>. [Accessed 21/11/23]. Pg13.
- <sup>2</sup> Age UK, 2023. Keeping the Lights on: The Case for an Energy Social Tariff. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/age-uk-energy-public-policy-report-march-2023.pdf>. [Accessed 04/12/23]. Pg33.
- <sup>3</sup> Ofgem, 2023. Levelling the cost of standing charges on prepayment meters. Ofgem. [Online]. Available at: <https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters>. [Accessed 01/09/23]. Pg18-19.
- <sup>4</sup> Age UK, 2023. Levelling the cost of standing charges on prepayment meters. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/safe-at-home/age-uk-response-to-ofgem---levelling-differential-payment-costs.pdf>. [Accessed 07/12/23].
- <sup>5</sup> Age UK, 2023. Keeping the Lights on: The Case for an Energy Social Tariff. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/age-uk-energy-public-policy-report-march-2023.pdf>. [Accessed 04/12/23]. Pg9.
- <sup>6</sup> Age UK, 2023. Keeping the Lights on: The Case for an Energy Social Tariff. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/age-uk-energy-public-policy-report-march-2023.pdf>. [Accessed 04/12/23]. Pg9.
- <sup>7</sup> Ofgem, 2023. Levelling the cost of standing charges on prepayment meters. Ofgem. [Online]. Available at: <https://www.ofgem.gov.uk/publications/levelling-cost-standing-charges-prepayment-meters>. [Accessed 01/09/23]. Pg18-19.
- <sup>8</sup> MoJ, 2012. Public Sector Equality Duty. Ministry of Justice. [Online]. Available at: <https://www.gov.uk/government/publications/public-sector-equality-duty>. [Accessed 05/09/23]. Pg7.
- <sup>9</sup> See section 3A: UK Parliament, 1989. Electricity Act 1989. UK Parliament. [Online]. Available at: <https://www.legislation.gov.uk/ukpga/1989/29/section/3A>. [Accessed 05/09/23]. Section 3A.
- <sup>10</sup> See: Age UK, 2023. Statutory Consultation – Involuntary PPM. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/consultation-responses-and-submissions/safe-at-home/consultation-response-to-ofgem---involuntary-prepayment-meter-installations.pdf>. [Accessed 07/12/23].
- <sup>11</sup> DESNZ, 2023. Community benefits for electricity transmission network infrastructure. Department for Energy Security and net Zero. [Online]. Available at: <https://www.gov.uk/government/consultations/community-benefits-for-electricity-transmission-network-infrastructure>. [Accessed 08/12/23].
- <sup>12</sup> Ofgem, 2023. Get energy price cap standing charges and unit rates by region. Ofgem. [Online]. Available at: <https://www.ofgem.gov.uk/information-consumers/energy-advice-households/get-energy-price-cap-standing-charges-and-unit-rates-region>. [Accessed 08/12/23].
- <sup>13</sup> Ofgem, 2023. Get energy price cap standing charges and unit rates by region. Ofgem. [Online]. Available at: <https://www.ofgem.gov.uk/information-consumers/energy-advice-households/get-energy-price-cap-standing-charges-and-unit-rates-region>. [Accessed 08/12/23].

---

<sup>14</sup> See: Age UK, 2023. Keeping the Lights on: The Case for an Energy Social Tariff. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/age-uk-energy-public-policy-report-march-2023.pdf>. [Accessed 04/12/23].

<sup>15</sup> DWP, 2023. Income-related benefits: Estimates of take-up: Financial year ending 2022. Department for Work and Pensions. [Online]. Available at: <https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-ending-2022>. [Accessed 08/12/23].

<sup>16</sup> Age UK, 2023. Research Note: Distributional impact of differing proposals for the introduction of a Social Tariff for energy use at home. Age UK. [Online]. Available at: <https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/safe-at-home/distributional-impact-of-differing-proposals-for-introducing-an-energy-social-tariff-june-2023.pdf>. [Accessed 08/12/23].

Pg7.