

Select Committee Evidence Submission

The Cost of Energy

Energy Security and Net Zero (ESNZ) Select Committee

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About Age UK and this inquiry

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.

The dual pressures of rising energy costs and a decrease in the relative value of energy support have left many older people struggling with the cost of living. The situation is almost as bad as at the height of the cost of living crisis in January 2023. There is an urgent need for an effective, long-term mechanism to support energy consumers and reduce levels of fuel poverty in the UK. This inquiry is a welcome opportunity for Age UK to share its views on the policy changes needed to support older people.

Age UK's key points and recommendations

- The way in which socialised debt costs are recovered is unfair to all consumers. When a supplier writes off a consumer's debts from their books, they should also write it off on the consumer's energy account.
- Consumers that pay by standard credit face an additional £120 in costs compared to those that pay by direct debit. This is counter-productive to efforts to reduce fuel poverty, since standard credit consumers are more likely to be fuel poor and struggle to afford the additional costs, than direct debit consumers.
- To insulate consumers from inflated prices due to shocks to the globally supply of gas, the Government should extend the Warm Home Discount scheme. The level of energy support given through the scheme should scale up or down according to the level of the energy price cap.
- Over time, the WHD scheme should be evolved, both in terms of eligibility criteria and the mechanism for support. The optimal delivery mechanism would be a unit-rate discount. Eligibility can be facilitated through income-based data matching.
- Funding for independent advice and energy support, through the industry initiatives component of the Warm Home Discount scheme, should be continued to help support fuel poor households over the long term.

Questions

1. Are the costs and benefits of the energy system properly reflected in consumer bills?

- 1.1** The costs and benefits of Great Britain's energy system should be reflected through energy bills in a more balanced manner. The current approach in the retail energy market is not balanced and pressurises many low-income households to consume less energy than they need – creating the potential for harm to the physical and mental wellbeing of everybody in those households.
- 1.2** For instance, the average consumer contribution toward the socialised cost of energy debt is around £70 per year. This amount varies by payment method, leading to higher prices for consumers that pay by standard credit (often referred to as Pay-on-Receipt-of-Bill).
- 1.3** Based on current price cap levels, a consumer with typical usage who pays by standard credit faces an additional £120 of costs compared to consumer that uses the same amount that pays by direct debit. Most of this premium arises from the additional contribution those consumers make towards the socialised cost of debt.
- 1.4** Age UK believes it is counter-productive to place additional costs onto consumers that less likely to be able to pay. Standard credit consumers contain a significant proportion of fuel poor households (18.5% of fuel poor households pay by standard credit compared to 22.3% who pay by pre-payment meter and 8.8% who pay by direct debit)¹. By maintaining a significant premium for standard credit consumers, Ofgem are compounding the affordability challenges faced by these consumers.
- 1.5** This is not just an economic issue; it is an issue of fairness. Consumers should not be penalised for using a payment method that meets their needs or capabilities. Where costs of non-paying customers are being socialised across paying customers, they should be socialised as broadly as possible rather than concentrated on the unlucky few. In principle, all consumers who are capable of generating debt should contribute equally to debt-related costs incurred by suppliers. Ofgem's analysis shows the redistribution of costs would produce a benefit of £223mn for low-income consumers.
- 1.6** Households pay by standard credit for a variety of reasons, including because their monthly direct debit is simply unachievable. A household may also be using standard credit because they do not feel comfortable giving control of their bank account to a third party through the direct debit system. According to Ofgem's research, 43% of households that pay by standard credit are unaware that there is a difference in cost compared to if they were to pay by direct debit.

¹ Department for Energy Security and Net Zero (2025), Annual fuel poverty statistics report: 2025, Available at: <https://www.gov.uk/government/collections/fuel-poverty-statistics#2024-statistics>

- 1.7** The current system penalises both those who knowingly accept a payment premium due to their distrust of the market, and those who are oblivious to the additional costs they are paying.
- 1.8** Consumers across all payment methods contribute around £1.5bn per year towards the costs that suppliers incur from energy debt. This amount is calculated by Ofgem, based on levels of debt that suppliers report to them. Levels of debt are continuing to reach new record levels (currently £3.85bn as of Q4 of 2024). Absent of intervention, Ofgem expects that debt-related costs may continue to increase, potentially spreading further cost pressure across different customer types through the price cap.
- 1.9** When a supplier considers debt as unrecoverable, they write it off their books but are not required to clear the balance on consumers' accounts. This is creating an outcome that unfair for all consumers: levels of energy debt will continue to increase, since a minimal amount of debt is being written off consumers' accounts, requiring all consumers to contribute more towards the socialised cost of it.
- 1.10** Any changes to how costs are recovered on energy bills could have significant distributional impacts. For example, UK Government is likely to make policy changes, such as reforming how policy levies on energy bills are recovered, in order to reach its clean power goals. By reforming levies, the Government may well incentivise the adoption of low-carbon heating technology such as heat pumps. While this would make heat pumps cheaper to run, it would make heating more expensive for millions of fuel poor households that use gas
- 1.11** It is vital that low-income, fuel-poor households are protected from the impacts of changes such as these. Currently, the level of support available to those households is very limited. Age UK discuss the kind of support that is necessary to protect those households in response to question 2.

2 How should consumer bills be insulated from inflated prices due to shocks to the global supply of gas? What needs to change?

- 2.1** The dual pressures of rising energy costs and a decrease in the relative value of energy support have left many struggling with the cost of living. For many, the situation is almost as bad as at the height of the cost-of-living crisis in January 2023. There is an urgent need for an effective, long-term mechanism to support energy consumers and reduce levels of fuel poverty in the UK.
- 2.2** While prices have been rising, the relative value of energy support has been decreasing. From the start of the price cap in 2019 up until 2022, a Warm Home Discount (WHD) scheme rebate covered between 12-14% of a typical user's annual energy bill. From 2022 onwards, the value of a WHD scheme rebate has been between 3-8% of a typical annual bill.

2.3 The result of these trends is that for many the cost of living, and in particular the cost of heating their home, has worsened in past year. In March 2025, new polling from Age UK revealed that among people aged 66+ in the UK²:

- One in 3 (34%) said they felt less financially secure heading into 2025 compared to when 2024 began – equivalent to 4.1 million people. This includes nearly four in 10 (38%) carers.
- Four in 10 (41%) said they have cut back on heating or powering their home – equivalent to 5 million people. This includes nearly half (48%) of older people with a disability.
- Nearly one in four (23%) said their home is colder than they would like it to be ‘all the time’ or ‘most of the time’ – equivalent to 2.8 million people.

2.4 Age UK’s view is that the fairest and most effective solution would be an energy social tariff. Implemented effectively, a social tariff would deliver targeted support to the 10 million UK households at the greatest risk of fuel poverty.

2.5 With the current iteration of the WHD scheme due to end in April 2026, and with a clear need for targeted energy support for those in most need, now is the time to explore a more effective mechanism for supporting energy consumers and reducing fuel poverty.

2.6 An energy social tariff could take several forms, including a flat-rate of support (as the WHD already provides – £150 per year) or a unit-rate discount (where support is provided per unit of energy consumed).

2.7 The most achievable and pragmatic option would be to continue to deliver flat-rate support by extending the WHD scheme to winter 2027, with the intention to evolving the scheme to eventually provide a unit-rate discount. A unit-rate discount approach would protect those with higher energy needs due to a long-term health condition, disability or caring responsibilities.

2.8 To insulate consumer bills from inflated prices due to shocks to the global supply of gas, the value of support given should be tied to energy prices paid by consumers.

2.9 There are two approaches to connecting the level of support to energy prices:

Mechanism	Benefits of this approach
Set the rate of support at a % value of the	Consumers receive an element of natural protection from changes to the price cap, including the addition of new allowances to the price cap, such as temporary debt allowances, and the increase of existing allowances such as network costs.

² Age UK (2025), Back to cutbacks: How older people are managing the cost of living in a time of rising energy prices, Available at: https://www.ageuk.org.uk/siteassets/documents/reports-and-publications/reports-and-briefings/cost-of-living-report_0325.pdf

energy price cap	This approach would also provide a degree of protection for fuel poor households from the negative distributional effects of the decisions that the UK Government is likely to have to make to reach its clean power mission goal – such as reform to energy bill levies, and the potential move towards locational pricing.
Set the rate of support at a % value of wholesale energy prices	<p>Changes in the wholesale price of energy have been the primary driver behind increasing energy costs. Increases to the wholesale cost of energy have led to excess profits being made by some generators, at the expense of consumers. This was the basis for the introduction of the Energy Profits Levy, and Electricity Generators Levy, which the OBR anticipates will have accumulated £15.6bn³ of income for this government by the end of the parliament.</p> <p>Except for a period of time during the peak of the crisis, wholesale costs account for less than half of the energy bill. The remaining make-up of an energy bill consists of policy costs, network costs, operating costs and some other smaller components.</p> <p>By connecting the level of support to wholesale costs, the budget for an affordability scheme should taper over time as GB Energy, and the Government's wider clean energy ambitions, begin to bring down wholesale prices.</p> <p>However, Ofgem and the Government would need to continue accounting for the potential negative distributional impacts for fuel poor households of policy changes such as levy rebalancing.</p>

2.10 Age UK believes that eligibility should include recipients of income-related means-tested benefits, disability benefits, and Carer's Allowance. Alongside this, households defined as living in relative poverty or just above the poverty line, identified using new data matching or proxy criteria, should be eligible, as should those missing out on the benefits system but still at risk of fuel poverty.

2.11 The current iteration of the WHD scheme includes Industry Initiatives' funding for support services which help energy consumers beyond bill rebates, including energy advice, benefit entitlement checks and debt assistance – ‘

2.12 Given that eligibility rules will never perfectly capture all of those in need of support, Industry Initiatives help to reach households at risk of fuel poverty who might otherwise 'slip through the net'. This includes those who don't have a direct relationship with an energy supplier, or who don't qualify for a rebate.

³ OBR Fiscal Outlook March 2025, found here: <https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/>

- 2.13** By supporting people to receive the benefits they are entitled to, and make energy efficiency improvements to the home, Industry Initiatives also help bring about long-term, potentially life-changing support.
- 2.14** In the last year of the WHD scheme, the Industry Initiatives budget was around £75m – roughly 13% of the overall scheme budget. They are crucial for ensuring that a limited budget can go as far as possible to reduce fuel poverty and must be a key component of a future energy social tariff.
- 2.15** For 14 years, Age UK has provided a Warm Homes Programme funded through the Industry Initiatives component of Warm Home Discount. The scheme has generated £18 of support for every £1 of funding. Over the past 3 years, the average return on investment has risen to £21 for every £1 spent. The support includes benefit entitlement checks and home energy checks, both of which deliver lasting support beyond the value that a single rebate can deliver.