

Independent Age submission to the Ofgem Energy Standing Charges Call for Input

Content warning: this submission includes information on sensitive topics such as suicidal ideation and mental health issues.

About Independent Age

Independent Age is a national older people's charity that supports people facing financial hardship in later life. We offer free and impartial advice and information, and give grants to community organisations. In addition, we use the knowledge and understanding gained from our frontline services and research to improve policy for the older people we support. For more information about Independent Age, please visit www.independentage.org. Registered charity number 210729.

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Introduction to this submission:

More than two million pensioners in the UK are living below the poverty line, with many more hovering precariously just above it. Every day Independent Age hears from people in later life who are struggling financially. The people we engage with – through our services, grant-giving, campaigning, research and volunteering – tell us about the anxiety they feel when they receive their energy bills and their worries about how they will survive living on a low income¹.

Our submission answers questions 4, 10, 11, and 12. We have provided evidence on older people's experiences and views of energy standing charges, drawing on a survey carried out with people aged 65 and over across Great Britain. 1,498 people in later life completed this survey between December 2023 and January 2024. Of these respondents, 530 were on a low household income of £15,000 or under. All quotes used in this consultation response are from people living on a low income, while the figures drawn upon in this document illustrate the views of both low-income older people, and older people across all incomes.

From this survey, we heard how people in later life on low incomes are having to cut back their spending on food, water and other essentials to afford their energy bills, and how the financial pressure of fixed energy standing charges are exacerbating these difficulties. Among people in later life in financial hardship that we have spoken to, an overwhelming majority believe the status quo is unfair and disproportionately negatively impacts those on a low income. In addition, we found that energy standing charges are having a considerable negative impact on the mental and physical health of many.

Key findings from our research include that, of those aged 65 and over with a household income of £15,000 or less:

- 92% said that it was not fair that those with low usage bore the same share of standing charges as those with higher usage.
- 81% said that all or some of the costs of standing charges should be moved over to the unit rate.
- 47% said that standing charges were making it 'much more difficult' to adequately heat their home, with an additional 43% saying that standing charges were making it 'more difficult'.

¹ *The hidden two million*, Independent Age, 2023, see https://www.independentage.org/sites/default/files/2023-06/Hidden_two_million.pdf

As part of the solution to lowering energy bills for those facing financial hardship, Independent Age welcomes Ofgem's call for input on energy standing charges. We believe reform is needed to provide greater protection to low-income consumers and those on a low income with high essential energy usage.

Independent Age recommends that:

- With a view to partial reallocation, Ofgem examines each aspect of standing charges; what is currently recovered on a flat basis that could be recovered on a unit basis, and whether there are certain costs that could be removed altogether. If taken forward, careful modelling and consideration of the level of costs being reallocated to unit rates must take place. This modelling must consider how different groups - including older people on low incomes and those with higher essential energy needs - would be impacted.
- The use of rising block tariffs should be avoided as they would disproportionately negatively impact those older people with unavoidable higher energy usage due to health conditions and disabilities and/or those with poorly insulated or older homes. This could also lead to additional confusion around energy bills.
- If there is a move towards volumetric standing charges, Ofgem should consider options to better protect certain groups, particularly people with high essential energy costs due to health conditions or disabilities and those who are living on a lower income. We believe viable options could include a cap or an exemption on standing charge costs for these groups.
- Longer-term, we believe an energy bills social tariff should be introduced by the Government in order to ensure that people living on a low income, and those with disabilities or health conditions, receive long-term protection against high energy costs. As part of this, we suggest that eligible customers should be exempt from paying standing charges.

4. As a result of TCR [Targeted Charging Review] and changes to the recovery of residual costs, domestic consumers with very low consumption now bear a share of fixed network costs which is more in line with the cost of maintaining access to gas and electricity networks. Is this fair? Should more be done to shield these customers from these costs?

The findings of our survey strongly suggest that people in later life on low incomes do not feel that the current system of fixed energy standing charges - whereby households pay the same amount regardless of their energy usage and circumstances - is fair.

Of those aged 65 and over with a yearly household income of £15,000 or less, 92% said that it was not fair that those with low usage bore the same share of standing charges as those with higher usage, with only 3% of the same age and income demographic saying that this system was fair.

"It is wrong that lower users have to pay the same as higher users. Even if you don't use any energy you are still charged this [is] extremely unfair for poorer members of society or sick or disabled." (Irene, 73)

"A fixed charge which is out of proportion to the amount of energy you use is decidedly unfair, and discriminatory, discriminating against those who use less energy and who are, most likely, those who can least afford it." (Dave, 75)

"Effectively the lower user is subsidising the high user. Even if I switched off all of my gas and electricity for a month, I would still pay the same standing charge as a consumer with very high usage." (Anonymous)

Many of our respondents spoke of how more needed to be done to protect those low energy usage customers who are on a low income from the standing charge, as well as how the energy standing charge should be linked to usage, while still protecting some high energy users, such as those with disabilities or long-term health conditions that rely on medical equipment.

"People using the most should pay the most, unless they have special circumstances e.g. they are disabled or have disabled person in the household, in their case they should not be charged the standing charge at all." (Carol, 69)

"Families on low incomes or people with disabilities who maybe cannot afford to cut down on usage or are not able to insulate homes etc should certainly not have to pay more." (Anonymous)

"People who use more [energy] should pay more, if they use less [energy] then pay less." (Kathryn, 68)

Independent Age believes that more should be done to shield both those customers with a low income, and those with high essential energy needs, from the high cost of the energy standing charge. Through our research, we explored attitudes towards the different ways of protecting these customers, including moving some of the energy standing charge onto energy unit rates. This could give customers more control over their energy bills by tying part of these costs to their usage.

Of those aged 65 and over with a yearly household income of £15,000 or less, 81% said that all or some of the costs of standing charges should be moved over to the unit rate. Only 1% of respondents in this demographic said that that energy standing charges should be kept as they are.

"If the standing charge was based on usage at least we could understand it. Some of the other charges could be removed" (Ann, 65-70)

"By incorporating it [the energy standing charge] in with your usage is a much fairer way of people on such a small State Pension." (Marian, 73)

"Really a reduction of standing charges costs is necessary" (Anonymous)

Independent Age recommends that:

- With a view to partially reallocating costs, Ofgem examines each aspect of standing charges. This should consider what is currently recovered on a flat basis that could be recovered on a unit basis, and whether there are certain costs that could be removed altogether. However, if taken forward, careful modelling and consideration of the level of costs being reallocated to unit rates must take place. This modelling must consider how different groups - including older people on low incomes and those with higher essential energy needs - would be impacted.

10. Why do no suppliers offer rising block tariff products at present? Would these products offer benefits to consumers?

Independent Age believes that many older customers - especially those with higher essential energy usage - would be disproportionately disadvantaged by being on a rising block tariff.

In our survey, we heard how those aged 65 and over with a household income of £15,000 or less were concerned about the impact a rising block tariff would have on those older customers with unavoidable high energy usage, such as those with disabilities or long-term health conditions. To give an example of what this can look like in reality, people in this situation often need to run medical devices which help them breathe and cost more in electricity, or may require regular hot baths to ease joint pain or need to do more laundry both of which increase their energy usage. These customers would likely see their bills increase if they were on a rising block tariff, as they would be pushed into the higher blocks by their necessary higher usage.

"I think that this would mean the elderly and poor would still turn energy use off so as to stay on a lower tariff. The disabled would pay the higher tariff as [medical] equipment is on 24/7." (Anonymous)

"Dreadful! Usually those who use the most are those who are at home more often e.g. pensioners, ... people with disabilities and their carers. Who would think that such a scheme would alleviate the suffering of a vulnerable group of people?" (Judie, 79)

"would be unfair to ... families with disabled people who need to use more energy. It's swapping one unfair system to another." (Carole, 69)

In our survey, when asked what impact a rising block tariff would have on the affordability of their energy bills, many older people on low incomes told us of their concerns around the impact such a tariff would have on those with poorly insulated homes. This is an issue that disproportionately impacts older people who are much more likely to live in older homes with a lower EPG rating². This means that many older people could be pushed into the higher blocks due to requiring a larger amount of energy to heat their poorer insulated homes.

"I would still have to switch my heating, knowing that I would be paying more the longer I have it on. The issue is I am cold living in my own home, because my house is old" (Anonymous)

"It sounds totally unfair to me, if you have a low income and live in a poorly insulated home, or you aren't allowed to improve the property e.g. if it's rented you will have to use more power to heat your home in a very basic way therefore incurring larger bills than an owner of a well-insulated home, therefore you would be penalising the poorest and making it even harder to keep your home warm and dry." (Carol, 69)

"Disabled, vulnerable, elderly and sick need minimum levels of heat, and often living in the worst insulated homes" (Anonymous)

² Who is most likely to live in homes that are harder to keep warm? Office for National Statistics, 14 December 2023, see <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/whoismostlikelytoliveinhomesthatarehardertokeepwarm/2023-12-14#:~:text=Census%202021%20data%20contain%20information,to%20have%20lower%20energy%20efficiency.>

We also heard additional concerns from the older people we surveyed around the complexity of rising block tariffs and how the introduction of these tariffs may lead to additional confusion around energy bills. In our survey we heard how older people across all incomes were already confused by the standing charge. 47% of older people we surveyed said they did not know what costs make up the energy standing charge. Many people in later life are already confused by their current energy bill, and told us that if rising block tariffs were introduced it would lead to further confusion and uncertainty.

"Far too complicated, just make it easier for people to understand." (Jimmy, 60's)

*"It is difficult enough to understand the usage and this could make it even more so."
(Anonymous)*

"It seems a complicated way of doing thing." (Ken, 74)

In addition, rising block tariffs may incentivise dangerous reductions in energy usage. Many older people have already been forced to make large scale cuts to their energy usage in an effort to reduce their energy bills (please see our response to question 11 for more details about older people cutting down their energy usage). By introducing rising block tariffs, we could see older people making even greater cuts in an effort to stay in the lower blocks.

"I would have to cut down on heating and the amount of food." (Paul, 71-75)

*"It would still mean people like me would be worried about using energy, so it wouldn't necessary help, I'd still be worried about using the energy and cutting costs to pay for it"
(Patricia, 65-70)*

"It would make more people use even less than now, cutting down when they are in need of warmth." (Margaret, 79)

Independent Age recommends that:

- The use of rising block tariffs should be avoided as they would disproportionately negatively impact those older people with unavoidable higher energy usage due to health conditions and disabilities and/or those with poorly insulated or older homes. This could also lead to additional confusion around energy bills.

11. How significant an impact do standing charges have on customers' incentives to use energy efficiently? What evidence can you provide that this is the case?

Standing charges have an impact on the amount of energy older people use, with older people on a low income telling us that they have reduced the amount of energy they consume to cover the costs of their standing charges. This is not about energy efficiency - this is about cutting energy usage back to dangerous levels. People in later life in financial hardship have told us that this is contributing to them living in challenging conditions, and is having a detrimental impact on both their physical and mental health.

For many, as the standing charge is inescapable, using energy more efficiently has no bearing on it. Instead, people cut back on the energy they need in order to cover the cost of the standing charge. In our survey of people aged 65 and over with a yearly household income of £15,000 or less, we found that 77% have reduced their heating usage over the last three months to help manage the cost of energy standing charges, and a further 14% of people have not turned their heating on at all. In addition, 47% said they have reduced

their use of non-heating electricity, and 23% said they have been eating more cold meals to save on energy.

For many older people living on a low income, these reductions in their energy usage have led to them living in cold homes, skipping meals, and selling their possessions to pay their energy bills. In our survey, 47% of older people facing financial hardship reported that standing charges were making it 'much more difficult' to adequately heat their home, with an additional 43% saying that standing charges were making it 'more difficult'. The older people living on a low income that we surveyed also told us that they have been forced to reduce their costs in other areas in order to meet their energy standing charge costs. 51% of the people we surveyed on a low income have reduced their water usage, and 22% of people said they have reduced food consumption or skipped meals.

"I am cold all the time. Have cut back on food, washing and laundry, and still can't pay my electricity bill which keeps going up." (Anonymous)

"I sold my car and now use public transport so that I can afford to pay my electricity bill." (Sara, 79)

"Wear more layers in the house. Retire to bed very early generally around 7pm. Bath only twice a week." (Anonymous)

Several older people told us about the impact that living in a cold home was having on their health – particularly if they were living with a disability or existing health condition.

"I have COPD [Chronic Obstructive Pulmonary Disease] and became quite ill last winter due to the cold. I can't do that again." (Margaret, 76)

"I am not able to keep my hands warm much of the time. This has resulted – last winter and this last cold spell – in very red & sore fingers, which bleed if I catch them. Hence, my fingers are covered – almost permanently – with breathable plasters." (Anonymous)

"I have a rare heart condition and have been advised to keep warm in winter but only put the heating on (for a very short time, 1 hour daily) when the temperature falls under 0 degrees." (Anonymous)

For other older people in financial hardship, the challenging conditions they are facing as they struggle to meet their standing charge costs are impacting their mental health, with the older people we surveyed telling us they felt stressed, depressed, and in some cases even expressing their wish to no longer be alive.

"Life is miserable in winter." (Anonymous)

"It is affecting my mental state." (Anonymous)

"I am finding it extremely difficult to stay warm, at my age I don't go out very much, so I am sat in a very cold room. I am 73 and recently widowed, my state pension is basic so I cannot afford heating and regular hot meals. I pray that I follow my husband sooner rather than later." (Barbara, 74)

12. Are there any forms of intervention in standing charges that Ofgem might consider that would minimise the risk of producing negative outcomes for some customers?

As outlined in our response to question 4, Independent Age believes that Ofgem should examine each aspect of standing charges; what is currently recovered on a flat basis that could be recovered on a unit basis, and whether there are certain costs that could be removed altogether. Partial reallocation of these costs could give low-income customers greater control over their energy bills and better shield them from some of the unfair high fixed costs.

However, if a change is taken forward, careful modelling and consideration of the level of costs being reallocated to unit rates must take place. This modelling must consider how different groups - including older people on low incomes and those with higher essential energy needs - would be impacted.

If enacted, then we believe this change must be accompanied by the introduction of immediate measures to better protect people with high essential energy needs due to disabilities or health conditions, and those who are living on a low income.

Nationally representative polling carried out by YouGov on behalf of Independent Age found that, of older people on a low income who had a disability or health condition, 38% said it means that they use more gas, and 40% said it means that they use more electricity.³ In our survey on standing charges carried out this winter, older people living with health conditions told us about some of the equipment they need to keep running in their homes, including nebulisers, oxygen concentrator machines, and hoists. The high energy requirements of this equipment means that any shift of standing charges over to energy unit rate costs could mean that people with disabilities or health conditions end up paying unfairly high costs.

Amongst the older people we surveyed across all incomes, there was widespread support (78%) for action being taken to better shield those with higher energy needs due to a disability or a health condition and those living on a low income from these costs.

"Disabled people, pensioners and low-income families are harder hit than those who can afford it, we have extra costs and less money to pay for it." (Patricia, 65-70).

"Medical equipment is a necessity not a luxury!" (Anonymous)

"A lot of people with health needs, low incomes etc are skimping on food to be able to pay for their electricity." (Sara, 79)

We believe there are several viable options for support for people with high essential energy needs or low incomes. When we asked older people what form this support should take, 48% of respondents across all incomes said that Ofgem should implement a cap to limit the amount vulnerable people pay towards the costs included in the standing charge. A cap on these charges would mean that once a household meets the threshold for contributions then the standing charge part of their unit rate would be removed from the rest of their bill. This would mean that people with high essential energy needs due to a disability or health condition who are on a lower income wouldn't pay unfair levels of these charges.

³ *A constant struggle: The impact of high household costs on older people facing financial hardship*, Independent Age, September 2023, see [https://www.independentage.org/sites/default/files/2023-09/Household costs report 2023 Independent Age.pdf](https://www.independentage.org/sites/default/files/2023-09/Household%20costs%20report%202023%20Independent%20Age.pdf)

Another viable option of support could be an exemption from the costs of standing charges. An exemption would mean that households on a low income and households who have high essential energy needs due to a disability or health condition would be excluded from paying the costs included in the standing charge. This would protect those with high essential energy needs from unfairly elevated charges due to their high energy usage, and protect those on a low income from unaffordable bills.

The older people in financial hardship that we surveyed told us about some of the benefits that an exemption from standing charges would have for them.

"This would help me mentally and physically; and stop me being uncomfortable because I can't afford to keep warm. It would also stop me getting mould on the walls." (Anonymous)

"How on earth do they expect the vulnerable to pay on the pittance they get to live on?" (Mary, 65)

"I would be able to heat my home more." (Kate, 70)

Longer-term, we believe that more needs to be done to support people living on a low income with ongoing high energy bills. At Independent Age, we believe that an energy bills social tariff is needed to provide those facing financial hardship with long-term protection from high energy costs. In our survey with older people, 61% of our respondents across all incomes said that the UK Government should introduce an energy bills social tariff, with eligible households exempt from paying the standing charge.

If introduced, an energy bills social tariff would be designed to reduce the bills of people living on a low income to a more affordable level. There are a number of ways an energy bills social tariff could be delivered. Our previous research has suggested that a unit rate discount – which would discount the rate charged for each unit of energy used by an eligible household - would be the most effective.⁴

Independent Age recommends that:

- If there is a move towards volumetric standing charges, Ofgem should consider options to better protect certain groups, particularly people with high essential energy costs due to health conditions or disabilities and those who are living on a lower income. We believe viable options could include a cap or an exemption on standing charge costs for these groups.
- Longer-term, we believe an energy bills social tariff should be introduced by the Government in order to ensure that people living on a low income, and those with disabilities or health conditions, receive long-term protection against high energy costs. As part of this, we suggest that eligible customers should be exempt from paying standing charges.

⁴ *A constant struggle: The impact of high household costs on older people facing financial hardship*, Independent Age, September 2023, see [https://www.independentage.org/sites/default/files/2023-09/Household costs report 2023 Independent Age.pdf](https://www.independentage.org/sites/default/files/2023-09/Household%20costs%20report%202023%20Independent%20Age.pdf)