

# Independent Age submission to Ofgem's statutory consultation on changes to the price cap wholesale methodology

June 2022

## 1. About Independent Age and this consultation response

Independent Age is a national charity. We offer free and impartial advice and information, as well as providing connection services to improve wellbeing and reduce loneliness of people in later life. In addition to this, we use the knowledge and understanding gained from our frontline services to campaign on issues that affect older people, like poverty, health and care.

We have responded to this consultation drawing on the on the insights we gain as a charity from older people about their experiences of poverty and energy costs. For more information about this response, please contact [policy@independentage.org](mailto:policy@independentage.org)

### Summary of this response:

Independent Age is very concerned about the potential consequences for older people on a low income of Ofgem's proposal to move to a quarterly update to the energy price cap. This will involve further bill increases in January 2023, the coldest time of year, when it is vital that older people are able to maintain a warm home. **The middle of a cost of living crisis is not the time to initiate this change and we urge Ofgem to reconsider this proposal.**

## 2. Older people and the cost of living crisis

Since 2012, there has been a slow but steady rise in income poverty among older people, with now almost one in five older people (18%) in relative income poverty after housing costs.<sup>1</sup> Our research shows that many older people cycle in and out of poverty with 40% of pensioners spending at least one year in poverty during a nine year period analysed.<sup>2</sup>

For older people who rely on the State Pension or welfare entitlements like Pension Credit to live, the cost of living crisis is particularly stark. The State Pension, and financial entitlements including Pension Credit, were only uprated by 3.1% in April 2022, in contrast to the actual inflation rates that have hit in 2022.<sup>2</sup> This means a real-terms drop in income for millions of older people as their entitlements rise by approximately 3%, but the cost of food and bills has

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<sup>1</sup> Independent Age, 'Poverty in later life: How people in older age move in and out of poverty, and what should be done to reduce it', January 2022. Available at: <https://www.independentage.org/poverty-later-life-how-people-older-age-move-and-out-of-poverty-and-what-should-be-done-to-reduce>

<sup>2</sup> Ibid.

risen by more than double that. The Bank of England has said it expects inflation to reach 10% this year.<sup>3</sup>

We are hearing regularly on our Helpline about the anxiety and stress many older people feel about the prospect of further increasing energy bills. Older people have told us about ways they are already cutting back, such as heating a single room in their house, wearing hats or jumpers to bed and cooking using the microwave rather than the oven to try to control their bills.

Older people are more impacted by increasing energy prices because they often spend more time at home. Their opportunities for increasing their income are also limited, so they may feel they have little choice but to cut back on usage.

Cutting back on heating in response to rising energy bills is particularly concerning amongst older consumers because they are more likely to be vulnerable to the cold from a health perspective. Cold homes have been comprehensively shown to impact upon excess winter morbidity and mortality; cardiovascular and respiratory disease; mental health; and other health conditions.<sup>4</sup> Those living in the coldest 25% of homes are 20% more likely to die in the winter than those living in the warmest 25%.<sup>5</sup>

Independent Age launched a survey in June 2022, asking people aged 65 and over for their experiences of rising prices. Interim findings, as of 12<sup>th</sup> June 2022, of 600 respondents show that, out of all increases in expenditure occurring at the moment:

- 38% are most concerned about recent gas or heating price increases
- 24% are most concerned about recent electricity price increases

Respondents to our survey also indicated a clear preference for fewer energy price changes each year, with 43% preferring just one adjustment per year. Just 6% were in favour of energy prices being adjusted as many as four times a year.

### **3. Independent Age's view on the proposed change to price cap updates frequency**

We understand the intention of the move to quarterly updates to the energy cap is to protect the energy security of suppliers, to enable them to more quickly recover costs when there are major fluctuations in wholesale prices. However, we are concerned about the unintended consequences of introducing an additional price rise in January, right at the point when consumers' use of energy is at its peak, at the coldest time of year.

We know that older people are already choosing to cut back on their energy use. Our polling from April 2022 found that 56% of over 65s with a gross household

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<sup>3</sup> Bank of England, Monetary Policy Report - May 2022. Available at: [Monetary Policy Report - May 2022 | Bank of England](#)

<sup>4</sup> National Energy Action, 'Under One Roof: Health and housing sectors tackling fuel poverty and cold related ill health together', February 2019. Available at: [NEA-Under-One-Roof-FULL-REPORT-FINAL-Feb-19-1.pdf](#)

<sup>5</sup> Ibid.

income of less than £20,000 a year were already reducing their spending on heating.<sup>6</sup>

The government's recent announcement of the package of support to help people tackle the increased costs as we go into the autumn was extremely welcome. It will help older people manage the costs associated with the energy price rise in October. However, the assurance it provides is likely to be undermined if consumers are anticipating a further significant rise again in January, alongside other price rises such as food and transport. Worries about a January energy price rise will damage confidence and we anticipate some older people will respond by limiting their heating use at the time when they need it the most.

**While we accept there may be a case for reform of the energy price cap, we do not think now is the right time pursue this change and we urge Ofgem to consider delaying its proposal.**

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<sup>6</sup> Polling for Independent Age by YouGov, conducted in late April 2022.