

Call for Input Response

Energy System Cost Allocation and Recovery Review

Office for Gas and Electricity Markets (Ofgem)

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About this call for input

This call for input aims to set out the nature of the cost allocation and recovery 'issue', specifically in the context of how increasing energy system costs can be recovered from consumers. It explores different options for how this can be approached and then considers how Ofgem can assess the options, particularly balancing complex trade-offs between considerations such as efficiency, fairness, affordability, practicality, net zero and economic growth.

Key points and recommendations

- Ofgem should account for affordability in its assessment framework.
- Options focusing on the use of income as a means of allocating cost should be prioritised and considered further.
- Ofgem should work closely with the Department for Energy Security and Net Zero to understand how best to deliver these reforms and what interaction they will have with energy affordability policies.
- Implementation should be subject to a trial and monitoring process, with a commitment to policy evaluation in order to mitigate the risk of unintended consequences.
- Reforms should be subject to full distributional analysis, including a focus on age groups.

About Age UK

Age UK believes every older person should be included and valued. We're working locally, nationally and internationally to change the way we age. Together with our partners, we're changing the day-to-day experience of getting older through essential services and local support. In the UK, the charity helps more than seven million older people each year by providing advice and support, including through our national advice line and our friendship services. It also researches and campaigns on the issues that matter most to older people, aiming to put older people at the heart of public policy and shift the way ageing is treated and represented.

Consultation questions

Question 2: What options for amending domestic cost allocation and recovery should we explore in more detail and why? What options should we rule out at this stage and why?

Age UK's Preferred Approach: Ability to Pay

Age UK believes the most effective and fairest way to allocate energy system costs is to link them to household income, so that those with lower incomes contribute proportionately. For older people — many of whom live on modest or fixed pensions — this approach has the greatest potential to reduce financial pressure, prevent fuel poverty, and ensure energy affordability over the long term.

Allocating costs according to ability to pay directly addresses the fundamental inequity of the current system, in which low-income households pay the same fixed costs as high-income households, despite being least able to absorb them and generally demanding less from energy infrastructure.

A significant proportion of older households struggle with unaffordable energy bills, and many are forced to cut back on heating or other essentials. In our annual Cost of Living polling, 42% of pensioners said they were worried about paying their energy bill.ⁱ By ensuring that the lowest-income households bear less of the burden, this approach would deliver immediate and tangible benefits to some of the most vulnerable in society.

Conditions for success:

- **Guarantees for low-income older households.** Ofgem must ensure that pensioners on low or modest incomes are clear beneficiaries, paying less than under the current system.
- **Accurate targeting.** Income should be the primary basis for allocation. Reliance on blunt proxies such as property banding or other assessments of wealth could risk excluding many low-income older people.
- **Automatic inclusion.** Data-sharing between Government departments and suppliers should be used to identify and apply protections, removing the need for application.

We strongly urge Ofgem to prioritise exploring this option above others, as it represents the clearest path to a fairer and more inclusive energy system.

Time-of-Use Charging

Age UK acknowledges the potential efficiency benefits of basing costs on the time of day that energy is consumed, but do not believe that time-of-use (ToU) represents a fair mechanism for allocating system costs.

Older people often cannot shift their energy usage to cheaper times, as heating, cooking, and medical equipment use are essential and concentrated in the daytime or evening. Many also lack the digital tools or confidence to engage with complex tariff structures. For these reasons, ToU risks penalising older consumers for essential consumption they cannot avoid.

Age UK believes ToU arrangements must:

- Be **opt-in only**, with a simple, fair default tariff for those who do not participate.

- Offer **clear, predictable structures** (e.g. two fixed time bands).
- Include **exemptions** for households with health or medical needs.
- Be subject to distributional impact assessments with explicit analysis of older households.

Location-Based Charging

Age UK has significant concerns about the fairness of location-based charging. Older people are more likely to live in older, inefficient housing and in rural or off-gas areas, where energy is already more expensive. Locational charging risks creating a postcode lottery, where older people in certain areas face significantly higher bills without any ability to move or improve their housing.

If pursued, locational reforms must:

- Include **direct protections and support** for households in high-cost regions, for instance by providing regional variation in energy support, such as through the Warm Home Discount scheme.
- Be accompanied by **targeted energy efficiency and retrofit programmes** for older homes.
- Be subject to **regional distributional modelling** before implementation, with mitigations applied wherever regressive impacts are identified.

Cross-Cutting Considerations

Across all proposals, Ofgem should consider:

- **Piloting.** Implementation should be phased and subject to robust evaluation.
- **Monitoring and accountability.** All reforms should be subject to rigorous distributional analysis, with transparent reporting on age, income, and health-related outcomes.
- **Non-price support.** Pricing reforms must be complemented by energy efficiency programmes, retrofit support, and practical advice, especially for older homes.
- **Clarity and simplicity.** Tariffs and bills must remain understandable, with offline support available. Complexity disadvantages many older consumers and those in more vulnerable circumstances.

- **Health and wellbeing.** Above all, reforms must not incentivise households to cut back on essential heating or electricity, given the serious health risks this poses for older people.
- **Recognition of essential use.** Where possible, households with verified medical energy needs should receive exemptions from higher bands of charges to ensure unavoidable usage is not penalised.
- **Collaboration with Government.** Ofgem should work with Government to explore whether changes to cost allocation could best be delivered through (or working in conjunction with) energy affordability policy such as the Warm Home Discount scheme.

Question 6: What do you think of the five criteria we have proposed to assess and the descriptions we have provided for their scope? How should we balance the trade-offs between these?

Age UK broadly supports the criteria outlined in the assessment framework. There are some considerations beyond what is already outlined in the Call for Input documentation that we have highlighted below.

Efficiency: It is right to assess the impact of proposals on consumer consumption behaviour and associated impact on system costs. But this must account for more than load shifting for engaged consumers and include the potential to reduce self-rationing amongst low-income households.

Consumers in fuel poverty, especially older consumers, are already demonstrating extreme self-rationing to avoid the prospect of falling into energy debt. In a survey conducted by Age UK earlier this year, four in ten (41%) older people said they have had to cutback on energy consumption – equivalent to 5 million people – up from 38% in 2024. Of this group, 59% said 'I wouldn't get into debt so would rather turn off my heating.' Many people prefer to ration energy consumption than go into debt with their energy supplier.

Self-rationing is endemic amongst the older population. It may be the case that Ofgem can account for it under the fairness criteria. However, as outlined above, efficiency gains cannot be properly accounted for without an understanding of the consumption behaviour of low-income consumers.

Fairness: Affordability must be considered through the lens of fairness. In particular, Ofgem must develop an understanding of how proposals would impact different cohorts' willingness to consume and ability to afford that consumption. This should be covered through a distributional analysis of the proposals.

It should also be clear what changes might be needed to the Government's energy policy to limit negative consequences for cost allocation reform. For instance, it is noted

that income, housing, and underlying health needs requiring specialist equipment are factors which will affect groups of current and future consumers differently.

Consideration must therefore be given as to how or whether energy support schemes like the Warm Home Discount should account for negative outcomes for some consumer groups. As an example, a proposal which introduces significant regional variation in cost allocation might require regional variation in the amount of support provided through schemes like the WHD.

Practicality: To assess the practicality of reforms, Age UK believes that Ofgem should commit to a trial and monitoring approach to implementation.

Economic Growth: To account for the implications of reform on economic growth, Ofgem must take a broad view. In addition to considerations for efficiency, productivity and innovation, Ofgem should account for affordability under this criteria. If reforms lead to higher bills for consumers who are already struggling with the cost of energy, this could damage the prospect of economic growth.

Question 7: What evidence should inform our options assessment? You are encouraged to share information, analysis and evidence with Ofgem to inform our assessment.

Regarding evidence of fairness:

It is important to account for age-based differences in future, especially as age will be a factor in consumers' ability to adapt to an evolving energy system.

It's also the case that not all problems are foreseeable. That's why Age UK would like Ofgem to commit to piloting and monitoring the implementation of cost allocation reforms. This will provide a safe, low-risk, opportunity to test reforms against their expected impacts.

Ofgem should also commit to conducting a full policy evaluation in advance of implementing any reforms. This is important for ensuring that the changes do not lead to serious, and potentially damaging, unintended consequences.

Question 8: What are the main trade-offs between our proposed assessment criteria? What are the main positive interactions?

The primary issue with the assessment criteria is how Ofgem will weigh the importance of one outcome over another. As outlined already, Age UK supports the case for cost allocation form, recognising that the current allocation of costs is unfair to consumers on low incomes.

Regardless of whether Ofgem pursues reform on the basis of location, time of use or ability to pay, there is risk that reform compounds the affordability issue for some consumers, while reducing the pressure for others. It is therefore critical that Ofgem

must be clear from the beginning about how affordability will be accounted for in the assessment framework.

Several years after energy prices entered a “crisis”, consumers are still facing enormous pressure when it comes to affording their energy bills. Recent analysis by Age UK outlined the impact that high energy bills is having on older people.

While energy affordability is not a policy area for which Ofgem is entirely responsible, the nature of cost allocation reforms are likely to have serious implications for all consumers. That’s why, as noted above, the process of reforming cost allocation must be co-ordinated with Government, and must form a major part of the assessment framework.

There is a case for prioritising the fairness criteria over considerations for efficiency, practicality, growth and the net zero duty. That would mean to prioritise an outcome that is fair for consumers over an unfair outcome that prioritises another criteria. Age UK would support this on the basis that an outcome that creates additional affordability pressure for consumers is likely to damage economic growth, impact consumer support for decarbonising the energy system, and create risk for the financial resilience of the sector.

Question 9: Do you agree we should consider impacts up to 2035?

Yes. Ofgem should also commit to policy evaluation, at which stage the impacts of reform can be reassessed, a couple of years following the implementation of reform.

ⁱ https://www.ageuk.org.uk/siteassets/documents/reports-and-publications/reports-and-briefings/cost-of-living-report_0325.pdf