

Briefing

Protecting consumers from high energy bills

February 2022



Soaring [global gas prices](#) in 2021 have left UK households and businesses facing higher bills, with high prices predicted to continue into 2022 and beyond.

The new level of the [energy price cap](#), set by Ofgem, will be announced from 7 February 2022 and will come into effect by April. The cap applies to retail consumers, not businesses. Cornwall Insight predicts that consumer costs will rise to £1,865 per annum, versus £1,277 currently. National Energy Action predicts that [six million households](#) will be in fuel poverty by April 2022 as a result of the imminent price rises.

The knock on effect of rising prices has already been felt in the retail energy sector, with many smaller firms going bust and even larger firms being affected too. The record increase in energy bills has caused 21 suppliers to collapse since the start of September 2021, and [the collapse of Bulb](#) brought the total number of households affected by a failed energy supplier to more than 3.7 million.

What has caused the spike in energy prices?

Energy crises like these are driven in large part by the volatile nature of fossil fuel prices and by global and geopolitical factors beyond the control of any one country. Governments that have prioritised domestic low carbon energy are more insulated to such shocks.

Overall, the rise in gas prices has been driven by:

- A cold winter in the northern hemisphere which depleted gas storage levels.
- Increased demand in East Asia has seen liquified natural gas shipments delivered there, rather than to Europe.
- Reductions in gas supply from Russia to Europe, reducing storage and increasing the price on the continent.
- Other UK specific factors, including: scarcity in electricity generation created by [a period](#) of very low wind, a fire [affecting](#) the main power interconnector between France and Britain, and nuclear facilities being [off grid](#) last year.

While the immediate priorities should be to keep consumer costs in check and maintain a broad range of suppliers, it is critical that this crisis catalyses action to create a more resilient energy system in future.

What needs to happen in the short term to protect consumers?

The greatest priority for the government over the coming months must be to ensure that bills are kept low for the most vulnerable consumers.

1. A [windfall tax](#) on oil and gas profits should be implemented as a matter of fairness. The UK's North Sea oil and gas companies are expected to report near record cashflows for the current financial year, with prices almost ten times those of last year, while costs of extraction are the same. George Osborne introduced a windfall tax on oil and gas companies in the UK in 2011. The windfall proceeds should be used to fund insulation projects across the UK, protecting consumers against further price shocks. The wrong approach would be to back volatile fossil fuels, which have caused this crisis.
2. The Treasury should also consider supporting the retail energy sector with loans, passing savings onto consumers through a robust framework and spreading the price rises over several years. This should be considered in conjunction with a review of the eligibility criteria for the Warm Homes Discount, to support the poorest households.
3. The government should protect funding for the [Energy Company Obligation \(ECO\)](#), which funds insulation for the poorest households, as a priority. It should also move green levies off electricity bills and onto general taxation, saving around [23 per cent on the average electricity bill](#). The government had already set a consultation in 2022 to move levies away from electricity but a decision on this should be brought forward. When gas prices stabilise, levies should be put back on gas.

What needs to happen long term to stop another energy price crisis?

Currently, the UK is very dependent on gas for energy, with [85 per cent of homes](#) using it for heating and [over a third](#) of electricity supplies coming from gas power plants. The supply comes domestically from the North Sea, as well as from countries like Norway. Dependence on imported gas and competition internationally for a volatile supply can cause significant price variation. The burning of gas for fuel is also responsible for greenhouse gas emissions and climate change.

To limit the risk of this situation recurring, and to boost resilience of the UK energy system, the government should take action to reduce the UK's demand for gas. For this, it could announce a policy package, including the following:

1. Scale up investment in home efficiency and clean heat alternatives

By ensuring homes are better insulated, the UK can reduce energy demand for heating (which currently mostly relies on gas). The UK should scale up supply chains for innovative home retrofits, like [Energiesprong](#), which could cut a home's heat demand by at least 90 per cent. **Retrofitting 11 million homes by this method would cut peak domestic**

heat demand by over 40 per cent. A lack of focus on upgrading homes has left British households more vulnerable to price shocks and higher bills.

The government's recent *Heat and building strategy*, *Net zero strategy* and comprehensive spending review were a missed opportunity to increase ambition on energy efficiency and home retrofits. In the Conservative manifesto, £9.2 billion was promised on heat and energy efficiency but, according to analysis by the [Energy Efficiency Infrastructure Group](#), there remains a £2 billion shortfall. **The government should urgently raise ambition on energy efficiency, to insulate homes, cut energy demand, reduce consumer bills and carbon emissions.**

2. Increase investment in domestic renewables and phase out gas

Generating electricity from existing gas plants is now three times as expensive as generation from new onshore wind and almost twice as expensive as generation from solar. Even the levelised cost of electricity (the industry standard for calculating energy bills) from new offshore wind, historically a more expensive technology, is cheaper than the generation of electricity from gas.

The government can continue its enormous success at reducing emissions from the power sector by following through its commitment to decarbonise the electricity grid by 2035. This should be complemented by guarantees around security of supply, the rapid adoption of policies to support flexibility and storage, and new ambitions around onshore wind and solar deployment in England, to ensure that the pathway to decarbonisation focuses on renewable technologies.

Recent government announcements on scaling up nuclear power, in response to gas price rises, should not be seen as a quick fix. While nuclear power is relatively reliable and low carbon, the strike price has historically been expensive, while the plants have taken years to commission and build. Hinkley Point C, for example, is only set to come on grid in 2028 and was sanctioned in 2017.

3. Remove subsidy on gas and reduce levy on electricity bills

The UK can be protected from future gas shocks by investing in heating systems based on electricity. Currently, while levies are applied to electricity bills to fund energy and climate policies, and electricity is covered by a carbon tax, gas faces none of these charges. It is also subject to a reduced VAT rate, which effectively acts as a subsidy. Research by [Oxford University](#) found that the current levy structure provides an active disincentive to adopt cleaner alternatives, like heat pumps.

The upcoming consultation, due in 2022, on switching levies away from electricity to gas is welcome but will come too late to help consumers this spring. **Around 23 per cent of electricity bills are made up of 'green levies', which should be moved onto taxation until**

gas prices fall. The levy should then be applied to gas bills, not electricity bills, in the long term.

Public opinion

The public are overwhelmingly in favour of measures to increase investment in renewable energy and phase out fossil fuels:

- Polling by [Ipsos Mori](#) showed **the majority of Britons (71 per cent) support greater investment in renewable energy in the UK**, compared to just seven per cent who actively oppose it; in the same survey, a slim majority (51 per cent) supported ending investments in coal, oil and gas projects abroad.
- According to public opinion polling by [Public First](#), **76 per cent of people support government funding for energy efficient upgrades to homes**, while just ten per cent oppose it.
- Research by [Bright Blue](#) found **high public support for offering financial subsidies** for installing better home insulation (69 per cent), switching away from natural gas heat in homes (62 per cent) and subsidising solar panels for homes (69 per cent).
- The [UK Climate Assembly](#) **supported a ban on sales of new gas boilers from 2030 or 2035 (86 per cent)**, changes to VAT on energy efficiency and zero carbon heating products (68 per cent), and to raise money for these through taxation and government borrowing (65 per cent).

For more information contact:

Joe Tetlow, senior political adviser, Green Alliance

jtetlow@green-alliance.org.uk t. 07913 888 856