Resolution Foundation

Gotta get through this

Energy bills this winter

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Britain's energy bill crisis is not over: Ofgem's imminent confirmation of the Q4 2023 price cap is expected to show that annualised typical energy bills will be above £1,900 from October, close to double those before Russia's invasion of Ukraine, and only a little below the effective level of £2,100 from last winter that resulted from the combination of the Energy Price Guarantee and universal £400 payments through the Energy Bills Support Scheme. However, this headline £200-a-year saving for a typical household masks a lot of variation, with the heaviest energy users in line for larger reductions in bills, and some households who use relatively little energy set to see bills rise this winter compared to last year. In fact, any family with an energy consumption less than four-fifths of the average will see higher bills this winter than last, a situation that applies to around one-in-three (35 per cent) of households in England and close to half (47 per cent) of those in the lowest income decile. For some, these extra costs will be substantial: 13 per cent of households (2.7 million families) face energy bills rising by more than £100 this winter, a figure that rises to one in four (24 per cent) for the poorest households. And although the Government has increased its Cost of Living payments to £900 during 2023-24 (up from £650 in 2022-23), the rising costs of other essentials – most obviously food bills, which are up by £960 on average since 2019-20 – mean this is unlikely to prevent another difficult winter.

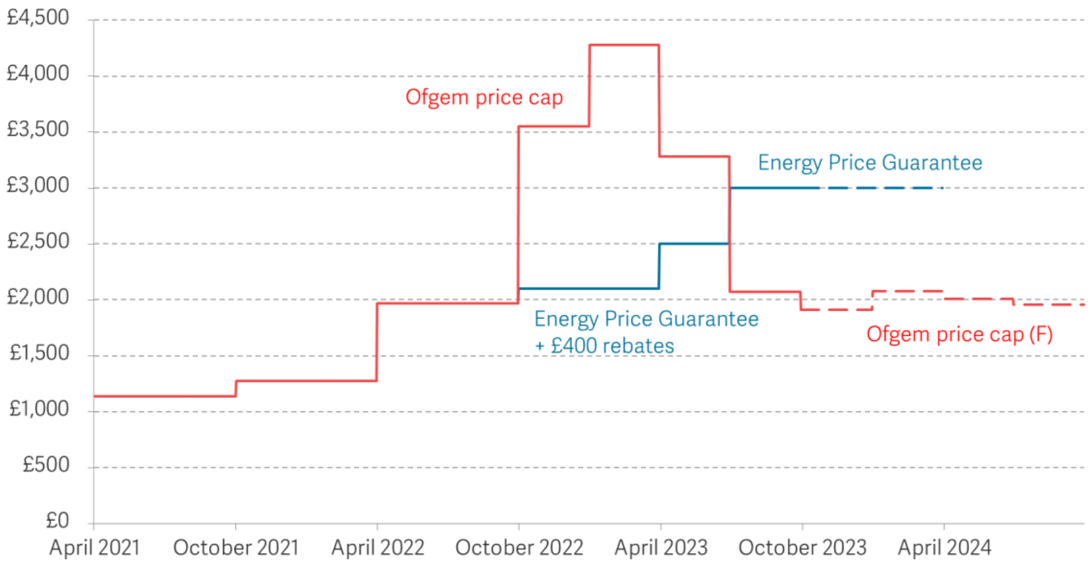
Progress on energy policy has also not lived up to the scale of the challenge. The Government is yet to take action to meet its goal of delivering 'more targeted support' for energy costs before April 2024, instead seeming minded to rely on a reformed Warm Homes Discount scheme to support low-income households with energy costs, a move that would fall a long way short of a genuine social tariff scheme. Perhaps a greater long-term failing is the lack of action to encourage home insulation, with rates in 2022 being 45 per cent down on the already-low levels seen in 2021. There are real-world impacts of this poor progress on efficiency, with those in an EPC E-rated home facing higher gas bills to the tune of £57 a month this winter, compared with an EPC C-rated home.

Political attention has shifted but, for many, energy bills will be higher this winter than last

The drumbeat of terrifying energy-bill forecasts from last summer has thankfully not been repeated this year, and the latest expectations for this winter point to price cap of £1,925 applying during Q4 2023 (not accounting for changes driven by changing demand levels in the price cap methodology).[1] This is nearly half the level of the Ofgem price cap set this time last year, with the fall driven by lower wholesale gas prices, which drive both gas and electricity bills. However, bills were kept artificially low last winter with the combination of the Government's Energy Price Guarantee (EPG) and the universal £400 Energy Bill Support lowering the effective typical annualised bill paid by households to £2,100, as Figure 1 shows. This winter's bills, then, look set to be slightly lower than that, but close to double those seen before the energy crisis took hold, with little immediate prospect of returning to those levels.

Figure 1 **Energy bills this winter for a typical household are set to be close to those last winter**

Historical and forecast annualised Default Tariff Cap levels, direct debit customers with typical consumption: GB



Notes: Assumed constant consumption of 2,900 kWh electricity and 12,000 kWh gas.
Source: RF analysis of Ofgem, BEIS, Cornwall Insight data.

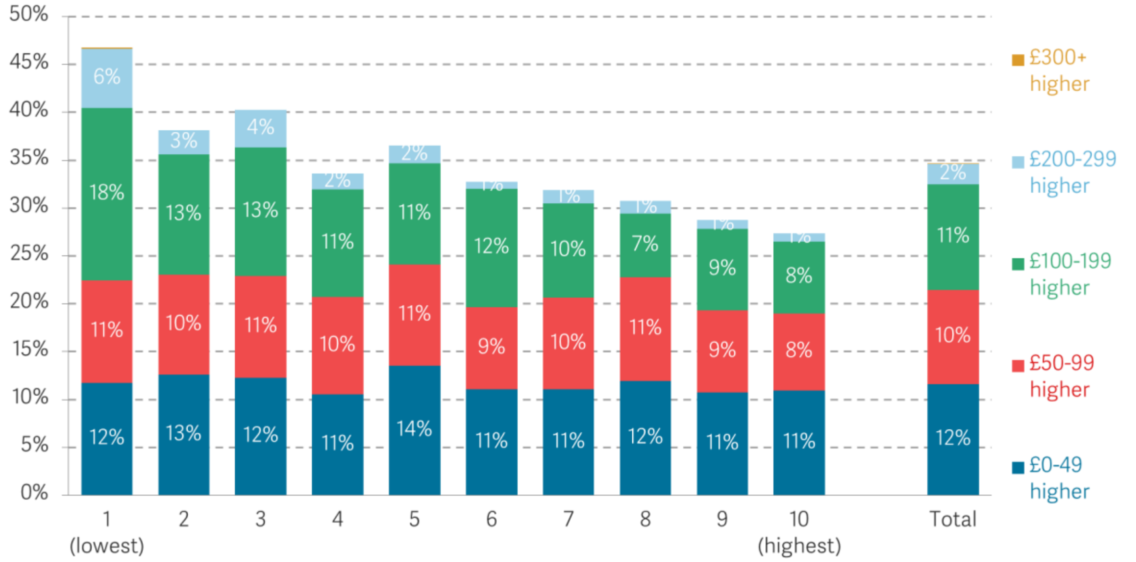
The change in the typical overall bill is driven by three factors which affect bills in offsetting ways. First, according to latest forecasts, unit prices are forecast to fall from 33p/kWh for electricity and 10.4p/kWh for gas under the EPG to 27p/kWh (down 19 per cent) and 6.9p/kWh (down 33 per cent) respectively. Second, standing charges, which are charged daily regardless of energy use, are set to rise to recoup the costs associated with the wave of supplier failures, consumer defaults, and additional support to shore up energy companies' finances. Third, the removal of the flat £400 Energy Bill Support scheme, which was paid out in monthly instalments over winter 2022 to all households, regardless of income or energy consumption, is in effect putting upward pressure on every household's bill this winter.

The interplay between these changes means that not every household will see energy bills fall. Whether a household faces a lower bill this winter depends on whether the lower per-unit prices provide savings that outweigh the higher standing charges and removal of the £400 support. Households consuming large amounts of energy – and therefore gaining the biggest benefits from lower per-unit prices – are more likely to see lower bills this winter than last winter. At the other end, households that consume less than 79 per cent of the typical gas and electricity consumption are likely to see higher bills this winter than last.

As Figure 2 shows, we estimate that one-in-three (35 per cent) or 7.2 million households in England, will fall into this category, and see higher energy bills this winter than they did last year, a figure that rises to nearly half (47 per cent) of those in the lowest household income decile. For some, these additional costs will be significant: 2.7 million, or 13 per cent of English households will be spending upwards of £100 more on gas and electricity bills during the upcoming winter, a figure that rises to 24 per cent of those in the poorest tenth of families. This estimate is based on data on 'required energy spending' that is collected in the English Housing Survey, revised in line with prices set through the Default Tariff Cap since October 2021. 'Required energy spending' accounts for the amount of energy that households need to consume to have a warm, well-lit home, with hot water for everyday use; we use it in preference to actual spend to ensure that those who actively reduce energy use are not assumed to be under-consuming in perpetuity, thereby mirroring the approach used in calculating [national fuel poverty statistics.]

Figure 2 **Around a third of households face higher bills this winter**

Share of households with higher required dual fuel energy spending during winter 2023-24 than in winter 2022-23, by equivalised after housing costs income deciles: England



Notes: Chart shows dual fuel households. English Housing Survey data on energy spending is disaggregated into unit prices and standing charges, and uprated in line with prices set through the Default Tariff Cap since October 2021.
Source: RF analysis of DLUHC English Housing Survey, Ofgem Default Tariff Cap, UCL Smart Energy Research Laboratory, Cornwall Insight, Department for Energy Security and Net Zero data.

One key group who faced the sharp end of the crisis last winter are households who pay their energy bills via pre-payment meters (PPM). This winter, nearly half (47 per cent) of PPM customers are set to pay more to heat their home adequately than last year, with 600,000 of these households needing to pay £100 or more than last year.

Around eight million households are receiving higher Cost of Living payments from the Government this year, but energy isn't the only cost pressure that they face

Although, as we have shown above, the removal of the £400 Energy Bill Support scheme means that a third of households could see higher bills this winter than last, the Government could point to the fact that it has expanded the Cost of Living Payments scheme in 2023-24 compared to last year. In particular, payments for around eight million families in receipt of means-tested benefits have increased from a maximum of £650 in 2022-23 to £900 in 2023-24, although the rates paid for those receiving the state pension or a disability benefit have not increased this year.

But these payments do not represent a silver bullet. Linking eligibility to receipt of a social security benefit means that no payments are received by the estimated 2.3 million households who are in the poorest fifth of the population but do not receive means-tested benefits.[2]

And, even for those qualifying for the full amount, the Cost of Living Payments do not offset the litany of financial pressures that households are facing. Since 2019-20 the average household food bill has increased by £960, while other non-discretionary costs are also reaching new heights. Private rents for new lettings have increased by 10.3 per cent in the past year – renters are over-represented in households facing higher bills, with four-in-ten (39 per cent) private renters and six-in-ten (62 per cent) social renters set to fork out more on energy bills this winter than last – and higher interest rates means that households renewing their mortgage have faced an average increase of £1,500 per year on their repayments since the end of 2021.

Government promises for more targeted energy support are missing in action

All this means that progress on finding ways to support struggling households and, more generally, reducing our national dependence on gas are vital. But progress has been disappointingly slow.

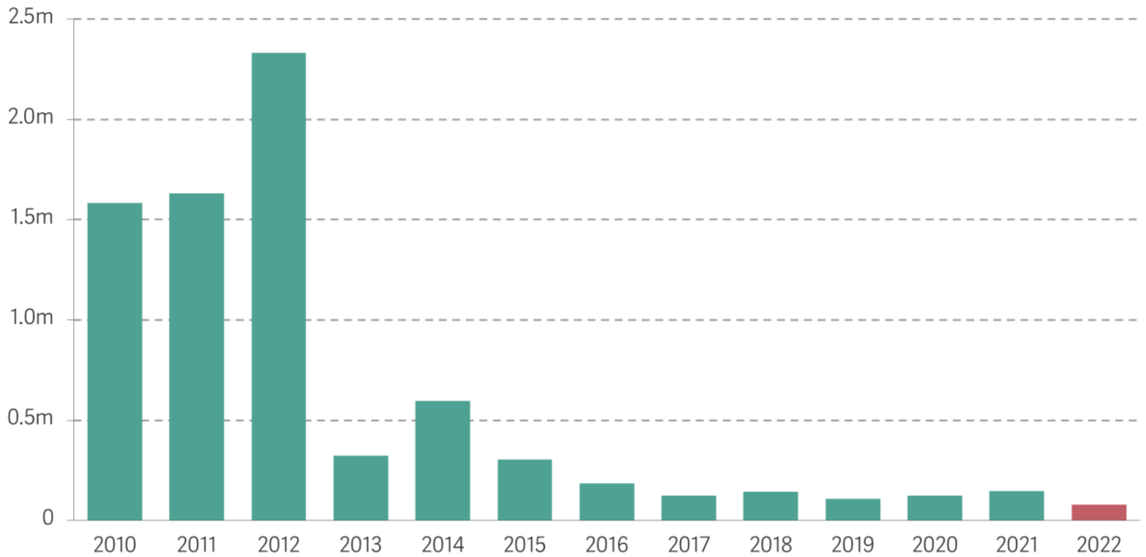
In both the 2022 Autumn Statement and the 2023 March Budget the Government announced that energy support would be more targeted in the future, later stating that it was "developing a new approach" to protecting poorer households from high energy costs from April 2024, including assessing the feasibility of a social tariff. However, the Government failed to issue a consultation on this before the summer recess (as promised), and instead suggested that a "more flexible" Warm Home Discount (WHD) could provide the solution, given the considerable fall in the price of energy since the original government announcements. This all suggests that the Government is moving away from the idea of a social tariff, and it certainly seems hard to see how one could be up and running by April given the lack of consultation on how such a scheme would operate. The suggested replacement – the WHD scheme – does provide targeted support with energy bills, but the level of support, currently £150, is not commensurate with the challenge associated with bills near-doubling from pre-crisis levels, and fewer than seven-in-ten of households in the lowest income decile are eligible for WHD support. Longer-term debate around the future of energy retail remains ongoing; the Government has outlined its 'vision for the future' that places considerable attention on competition and technology, but has much less to say on protecting low-income households.

Nearly two years after gas prices began to soar, efforts to insulate homes and reduce the UK's gas dependency remain lacklustre

Looking further ahead, the best way to reduce the impact of high and volatile fossil fuel prices on living standards is to reduce gas demand. Despite household use accounting for one third of national gas consumption, progress on insulating the nation's old and inefficient housing stock remains very slow. Bafflingly, in 2022 the number of homes insulated through government schemes was down 45 per cent on already meagre 2021 levels, falling to just 3 per cent of the high seen before policy changes in 2013 virtually stopped progress overnight, as Figure 3 shows.

Figure 3 **Abysmal progress on insulating UK homes slowed further in 2022**

Number of fabric energy efficiency measures installed through Government schemes: UK



Notes: Data on privately funded and installed energy efficiency measures is not recorded by Government
Source: RF analysis of CCC 2023 Progress Report to Parliament data.

This glacial progress continues to have significant implications for household finances. We estimate that heating the average EPC E-rated home this winter will cost £57 per month more than a C-rated home (the Government's target is for 'as many homes as possible' to reach C standard by 2035), while occupants of EPC F-rated properties will be shelling out an extra £70 a month compared to an equivalent C-rated property. This slow progress is notable in relation to our peers. France, for example, has bolstered its widely successful 'MaPrimeRénov' insulation programme with goals of insulating 370,000 homes per year by 2030 and doubling the pace thereafter. And UK heat pump installations continue to lag well behind those in other European countries, at just 2 per 1,000 households compared with 15 per 1,000 in the Netherlands, 20 per 1,000 in France and 69 per 1,000 in Finland. Progress in these dimensions would both reduce our gas dependency and speed progress towards our net zero targets.

Households face another tough winter in 2022-23, and little sign of respite in years to come

As this Spotlight has set out, while falling wholesale gas prices are welcome, the UK remains in the midst of an energy crisis with a third of families set to face higher bills this winter than last. Relying on a repeat of last year's mild winter is a recipe for hardship, and without sufficient time to introduce a social tariff or to make wider reforms to retail policy ahead of this winter, policy makers will want to ensure that household support meets the scale of the challenge ahead. It is particularly troubling that there has been so little progress in trying to lower future household bills, with home insulation rates falling even further, and little progress in de-gassing the UK. Without these, winter energy crises look set to become an unwelcome annual tradition.

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[1] Throughout this note we use typical domestic consumption values (TDVCs) of 2,900 kWh for electricity and 12,000 kWh for gas, in line with those used in Default Tariff Cap calculations up until Q3 2023. Ofgem has recently revised TDCV values to 2,700 kWh for electricity and 11,500 kWh for gas from Q4 2023 onwards. This adjustment is based on many years of a longer-term trend of falling household energy use, which is down 14 per cent since 2005 for electricity and 23 per cent for gas. It therefore overstates the fall in energy use from this year to last. Comparing annualised bill figures based on different underlying levels of demand does not make for good comparison, and as such we hold demand constant. Cornwall Insight has released estimates of the October price cap at both of these levels, pegged at £1,925 for old TDCV values and £1,824 for the lower level.

[2] In particular, someone earning £1 too much to qualify for Universal Credit could potentially miss out on one or more of the three lump-sum payments that comprise the £900 of support – a powerful disincentive for some to increase their earnings this year.