

# Power cut

What the Government's energy bill discount means for households, and what comes next

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Next week, Ofgem is expected to announce that the Q2 2026 energy price cap will be nearly £120 below current levels. This reduction is overwhelmingly driven by the Government's energy bill discount, which will deploy approximately £6.9 billion of public spending over the next three years to lower one of British families' biggest expenses. The discount is well designed: by targeting electricity unit rates, it supports the drive for electrification essential to meet the UK's net zero targets. It also disproportionately supports those with the largest bills, typically those with electric heating, larger families or high levels of electricity demand. So while the typical family will be around £135 better off in 2026-27, one-in-four (24 per cent) will save more than £200.

Across 2026 as a whole, the typical energy bill is now expected to be around £1,645, more than £200 lower, in real terms, than in 2024. And despite cost pressures baked into the energy system – mainly from policy costs and investing in network infrastructure – the Government's discount, along with forecast falls in wholesale prices, means we should see annual bills remain around £60 below current levels through to 2029. But, after that, the Government's discount is set to be withdrawn, just ahead of a likely General Election. From a policy perspective, this is hard to justify and brings an uncomfortable choice for the Government: allow support to expire and bills to rise, or find the money to extend. As we have previously argued, there is a strong case for the Government to minimise the extent to which policy costs push up energy bills. It would be prudent to set out a durable framework for which costs belong on bills and which in taxation well ahead of 2029, rather than create additional uncertainty through ad hoc decisions made under election pressure.

Ofgem is set to announce the Q2 2026 energy price cap next week, with the [latest forecasts](#) predicting a level of £1,641 for an annual bill, down £117 (7 per cent) on the current quarter's £1,758. The main driver of this fall is the Government's energy bill discount, which will save the typical household around £135. Lower wholesale prices will save a further £16, but these are more than offset by rising network investment costs that will add £37.

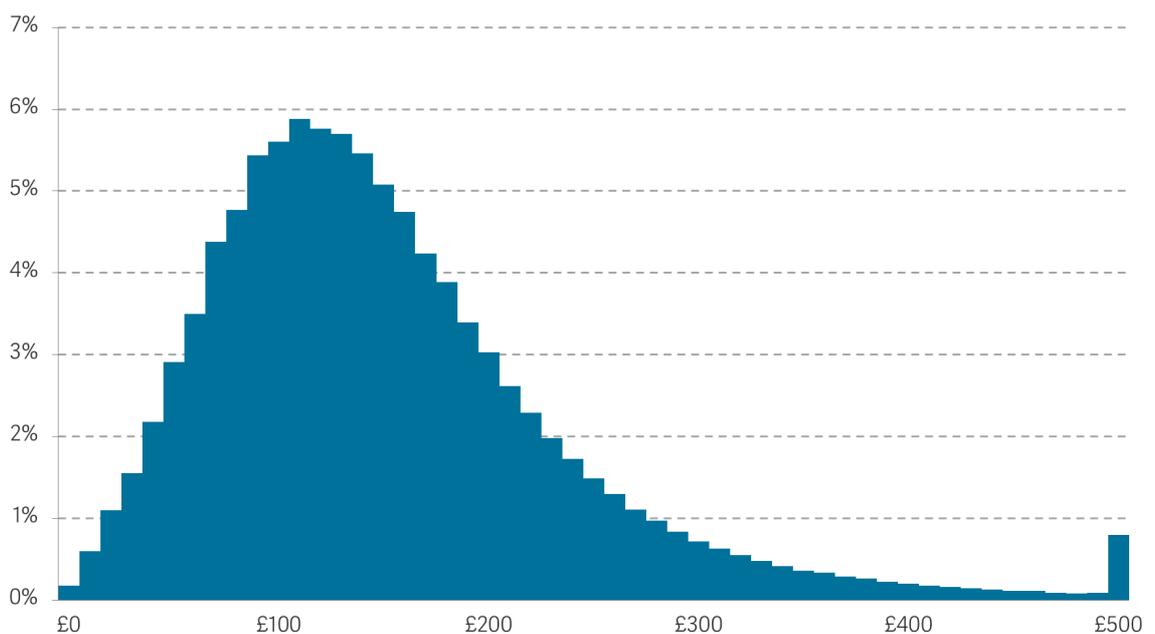
This will be the first price cap to incorporate the bill savings announced at last year’s Budget, marking a significant intervention on the cost of living: approximately [£6.9 billion of public spending](#) by 2028-29 will be used to reduce outlays on one of British families’ biggest bills. The relief comes from two policy changes: scrapping the Energy Company Obligation (ECO), saving the typical household approximately £60 per year; and shifting 75 per cent of the cost of the Renewables Obligation (RO) scheme from bills to the Exchequer, worth around £67. A lower base on which VAT is applied will then shave a further £7 from bills.<sup>i</sup>

The exact amount that these policy changes will save billpayers depends on the starting point for comparison. On a consumption-weighted basis, we estimate that the typical real-terms bill was £1,863 in 2024 (£155 per month). In 2025, it was 5 per cent lower at £1,780 (£148 per month). On a comparable basis, it is expected to fall a further 8 per cent in 2026 to around £1,645 (£137 per month) – a cumulative reduction of more than £200 since 2024.<sup>ii</sup> These figures depend on forecasted prices for the latter part of 2026 and, in general, the actual discounts experienced by consumers could be much more or less than the pure effect of government policy.

## Precise bill savings will vary according to patterns of energy use

As shown in Figure 1, the typical household will benefit by around £135, but one-in-four (27 per cent, or 7.5 million) will save less than £100. At the other end, 24 per cent (6.8 million) of households will gain more than £200, and 6 per cent (1.8 million households) more than £300.

Figure 1 **The Government’s discount will see household-level savings cover a wide range**  
 Proportion of households seeing energy bill discounts, by £10 band: GB, 2026-27



Notes: Figure shows both dual fuel and electricity-only households.  
 Source: RF analysis of Ofgem Price Cap Methodology, DESNZ National Energy Efficiency Database data.

The Government's intervention has been well designed, driving savings primarily through electricity unit rates, which are set to [fall by 15 per cent](#) from Q1 to Q2 2026 (27.7p to 23.6p/kWh), with a smaller 7 per cent fall in gas unit prices (5.9p to 5.5p/kWh). Targeting unit rates rather than the standing charge means savings vary, with households who use more electricity seeing the biggest benefit. Some may be disappointed to save less than the Government's £150 headline figure, but this variation is a feature, not a bug: the policy directs the largest benefits to those with the greatest use, which includes families with electric heating and larger households.

Acting in the opposite direction, however, is a chunky rise in electricity standing charges, forecast to increase by 17 per cent on the quarter (from 54 pence per day to 65 pence per day come April) as the cost of network infrastructure investment is passed through to consumers. Gas standing charges will increase by around 3 per cent too. Together these are worth £37 per year and will eat into the Government's savings, particularly for those with low consumption levels, where standing charges comprise a greater share of bills. However, the overwhelming majority (98 per cent) of households will see lower bills in April than under the current price cap.

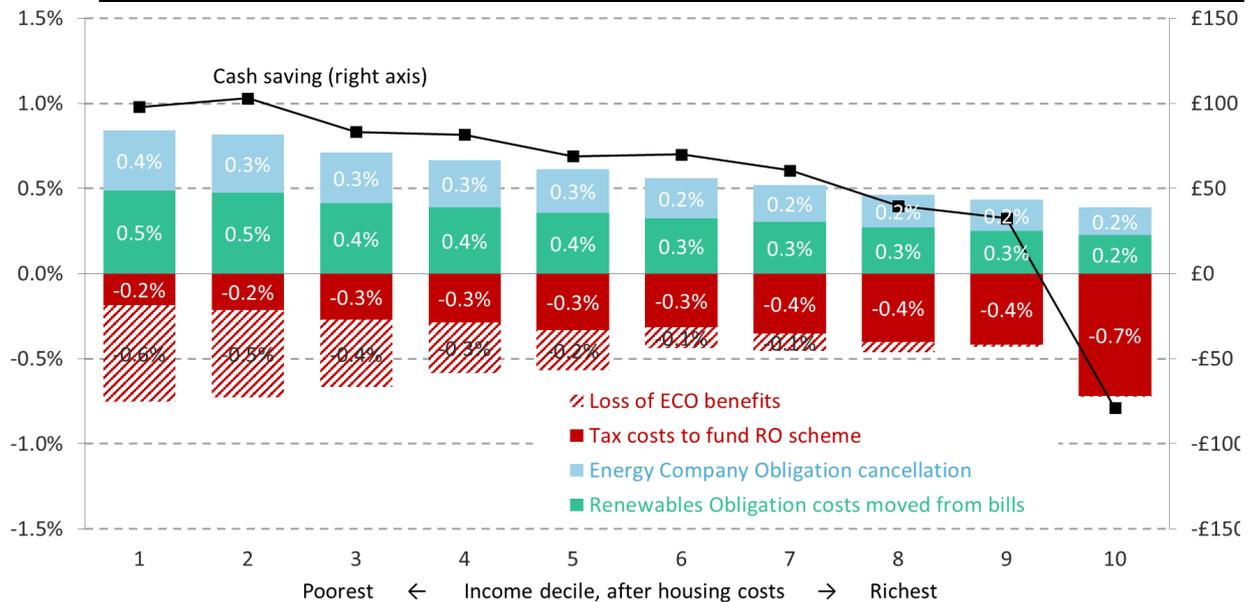
## The Government's energy bill discount helps those most in need

Reducing policy costs on energy bills is a good policy. Figure 2 shows the distributional impact of the Government's change, with the blue and green bars representing average savings as a proportion of household expenditure for each income decile. It also includes a notional tax rise to fund the Exchequer taking on 75 per cent of the costs of the RO scheme, assuming these costs are spread across the entire tax base (the solid red bars). It shows that bill savings are worth twice as much to the bottom two income deciles (0.8 per cent) than to the top two (0.4 per cent), and that higher earners contribute far more to offsetting the tax cost than those who are poorer.

Figure 2

## The Government's energy discount delivers the greatest cash benefits to poorer families

Savings and extra costs from the Government's energy bills package, as a proportion of total expenditure and as cash savings, by equivalised after housing costs income deciles: GB 2026-27



Notes: Annual gas and electricity consumption values derived from the Living Costs and Food Survey (LCFS) and re-weighted to align with Ofgem's typical domestic consumption values. Savings arising from changes in gas prices are only attributed to households who report spending on natural gas in the LCFS. No discounts are applied to households using other fuels such as heating oil. Cash savings do not include the effects of lower capital spending on ECO home upgrades as the across-decile averages are skewed by the small number of households receiving large levels of support. Tax contributions are derived from ONS Effects of Taxes and Benefits data and represent decile averages. This data includes most taxes, but does not account for some, such as household contributions to corporation tax, capital gains tax and inheritance tax.

Source: RF analysis of ONS Living Costs and Food Survey, DWP Households Below Average income, ONS Effects of taxes and benefits on UK household income, Ofgem Price Cap Methodology, ONS CPI indices, Bank of England CPI forecast data.

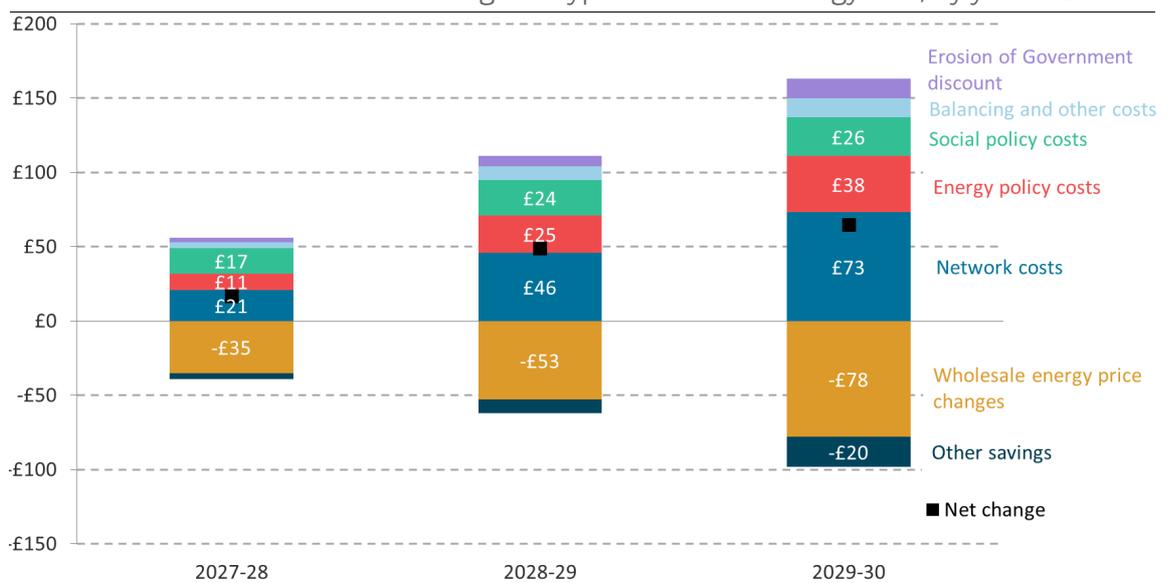
But Figure 2 also shows the billpayer-funded capital spending under the ECO scheme that will no longer be used to upgrade the homes of families struggling with energy bills. When averaged across deciles, the lack of this provision appears to largely cancel out the upsides from the Government's package for those on the lowest incomes. However, only a tiny fraction of families (0.3 per cent of those in the bottom three income deciles, fewer than 12,000 households) receive ECO-funded upgrades each year, so these decile-wide averages overstate the losses from the cancellation of the scheme.<sup>iii</sup>

As such, when we look at net cash savings from the Government's package and exclude this spending (see the black line in Figure 2) we see that nine of the ten income deciles are, on average better off, with those in the bottom quintile seeing a net benefit of around £100, once the costs of public funding are netted off. Only those in the highest decile lose out on average.

## The discount protects households against upwards pressure baked into future bills

Absent further rises in wholesale prices, the Government's discount should keep bills below current (2026) levels until the subsidy expires. As shown in Figure 3, upward cost pressures from network investment, low-carbon policies, social levies and balancing costs are forecast to total around £150 per household by April 2029. This is partially offset by falling wholesale costs and anticipated supplier efficiencies, which are expected to reduce typical bills by around £100. At the same time, the value of the discount itself will shrink as the RO contracts it funds gradually expire, reducing the household saving by a further £15. Together, these pressures deliver an estimated net increase of approximately £65 but still leave bills around £60 lower than they would be without the Government's intervention.<sup>iv</sup>

Figure 3 **Costs baked into the system are set to put upward pressure on bills**  
Forecast additional costs and savings on typical dual fuel energy bills, by year: GB



Notes: Figures are shown in real (2026) prices and do not include VAT. Estimates for the start of the fiscal year. Annual costs based on typical consumption values of 2,700 kWh of electricity and 11,500 kWh of gas. Network costs are estimates extrapolated from published regulatory trajectories. Energy policy costs include Contracts for Difference, Sizewell C (RAB model), Capacity Market and Long Duration Energy Storage. Social policy costs include the Ofgem Debt Relief Scheme and bad debt allowances within the price cap. Balancing costs are estimated BSUoS charges from National Grid ESO. Wholesale energy price changes reflect futures prices from the Intercontinental Exchange (ICE) and modelled declines in the direct fuel cost components of bills as low carbon generators displace gas-fired output. Other savings include the declining cost legacy Feed-in Tariffs, the transition from RPI to CPI indexation of regulated costs, and anticipated gains from improved supplier efficiency and the smart meter rollout. Source: RF analysis of Ofgem RIIO-3 Final Determinations; Low Carbon Contracts Company CfD register; electricitybills.uk; Ember, DESNZ; NESO Future Energy Scenarios; Energy UK; Oxford Institute for Energy Studies; International Energy Agency; and OBR, Economic and Fiscal Outlook, November 2025.

What is driving these policy costs? First, energy bills continue to be used as a [‘shadow’ welfare system](#) with extra costs now being added to socialise the cost of energy debt. Household arrears reached a record £4.4 billion in 2025. The cost of servicing this debt currently adds around £50 per year to the typical bill, and Ofgem's new [Debt Relief Scheme](#)

will add close to £20 on top. In addition, an [expansion of the Warm Homes Discount](#), increasing eligibility to an extra 2.7 million households, has recently pushed up standing charges by around £20.

Generation-related policy costs are also rising. New nuclear levies to pay for Hinkley Point C and Sizewell C will add to electricity bills by the end of the decade. And an upturn in clearing prices in recent wind and solar auctions means the impact on prices from capacity procured can no longer be assumed to be bearish. Further costs from grid balancing, hydrogen production and the capacity market risk will also push bills higher.

But the biggest pressure comes from network costs. Electricity transmission charges are set to [nearly double by 2031](#), adding approximately £70 to standing charges, with gas network charges adding a further £50. Ofgem is also deliberating on the investment needed in the lower-voltage distribution network between 2028 and 2033. It has committed to smoothing these increases over the price control period, but total network charges are on track to be 50 per cent higher by the end of the decade, with disproportionate rises in some parts of the country.<sup>v</sup>

## The 2029 cliff edge looms large

The fiscal cost of the Government's intervention is substantial. In addition to the £6.9 billion cost of funding 75 per cent of the RO scheme until April 2029, the decision to scrap ECO saw an additional £1.8 billion of spending assigned to the Warm Homes Plan to 2029-30 to maintain help for fuel poor families to cut the cost of keeping warm. These are significant commitments given the stretched position of the public finances.

However, the Government's package includes a cliff-edge: RO funding is guaranteed for only three years. So just months before a potential General Election, the Government will face an uncomfortable choice: allow support to expire ([with the remaining £55 added back onto bills](#)) or find the resources to maintain (or extend) a discount. This represents a form of policy risk to the public finances.

The gradual expiry of RO contracts means that extending the current package would cost less than it does now (around £2 billion in 2029-30 compared with £2.6 billion in 2026-27). But more importantly, the Government's discount has shown the merit of some costs falling to the taxpayer instead of the billpayer. This principle should continue to guide future interventions if bills do not fall through energy policy alone, and instead requires further reallocation of costs to the public purse.

So there is a [strong case for further taxpayer funding](#) for legacy energy policy costs, where costs are known and will decline over time, and social policies – including debt relief and support for vulnerable households. The question of who should bear ongoing decarbonisation costs is more nuanced, however. There is a valid argument for maintaining

the polluter pays principle and therefore keeping the cost of decarbonising electricity on bills, but this principle is undermined by the lack of a carbon tax (or equivalent) on domestic gas. If decarbonisation costs become too high for households to bear, further taxpayer support may indeed be warranted.

The worst outcome would be for this principle to be applied only when politically convenient – extended in election years but abandoned when the fiscal weather turns. As such, it would be wise for the Government to clarify its approach well ahead of 2029. Households need certainty about the trajectory of energy costs and ad hoc decisions made under election pressure risk undermining both fiscal discipline and the coherence of energy policy.

Overall, then, the Government's energy bill discount is a well-targeted policy. Nine out of the ten income deciles will gain, on average, and it begins to reverse a decade of regressive accumulation of policy costs on bills that are a large component of family budgets. But challenges remain. The value of the discount will fall slightly over this Parliament, and new costs baked into the system will further erode savings. And the principle of which costs belong on bills versus in taxation needs clearer articulation. The Government has bought time and demonstrated that reform of the bill-tax boundary is possible, but the energy system is creating new costs without a framework for allocating them in a way that both provides certainty for households and supports the transition to net zero.

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<sup>i</sup> These figures are for a household with an annual consumption of 2,700 kWh of electricity and 11,500 kWh of gas, values in line with Ofgem's typical domestic consumption levels. The Government has explained that the £150 is a 'rounded average figure' and that the typical household uses less energy than this average. For more, see: Department for Energy Security and Net Zero, [What does the Autumn Budget mean for your energy bills?](#), November 2025.

<sup>ii</sup> Source: RF analysis of Ofgem Price Cap Methodology, UCL Smart Energy Research Laboratory, Cornwall Insight and EDF price cap forecasts, ONS CPI indices and BoE inflation forecasts. These values are weighted by quarterly shares of annual consumption, derived from smart meter data. No publicly available forecasts break price cap levels in the second half of 2026 into unit rates and standing charges for both fuels. However, the latest (17 February) EDF forecast suggests levels will fall slightly (by around £40) from Q2 to Q3 before remaining broadly unchanged for the rest of the calendar year, so this calculation conservatively applies Q2 price cap rates throughout 2026.

<sup>iii</sup> It is also worth noting that ECO spending is valued pound-for-pound in this analysis, even though there is evidence that the scheme was not run efficiently: a significant share of its budget was absorbed by the costs of identifying eligible households and persuading them to enrol, rather than delivering upgrades directly, and many installations have been highlighted as poor quality – particularly those including solid wall insulation.

<sup>iv</sup> Here it must be stressed that, as with all predictions (and especially those involving global commodity markets) there is a large degree of uncertainty in these results: higher wholesale gas prices, delays to renewable deployment, changes to modelled savings from a more efficient grid, or even unfavourable weather can have dramatic implications on future bill levels.

<sup>v</sup> It is worth noting that the Government recently decided against pricing electricity by location. But an increase in the standing charges that households pay depending on where they are in the country will see bill differences by region increase, but without providing effective price signals through unit rate differences that

has the potential to deliver a more efficient electricity system. For more, see: Z Leather and J Marshall, [Flex appeal](#), Resolution Foundation, June 2025.