

## Power struggle

### Assessing the options for supporting families with the rise in the cost of energy

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Conflict in the Middle East has driven oil prices from around \$70 to \$100 per barrel, with wholesale gas prices also rising by over 60 per cent. The duration and severity of the ongoing war are uncertain, but the longer it continues the more likely it is that both petrol prices and energy bills rise, adding to pressures facing families. Given the Government has said the high cost of living is its number one priority, and has acted to help those reliant on heating oil, there is growing pressure to provide widespread support. So what should be done?

Some have been calling for a reversal of plans to raise Fuel Duty, but that is not a serious response to the crisis. This is partly because petrol prices are relatively low – the cost of filling a tank is around the same as it was before the pandemic in real terms; and because such a policy wouldn't do enough to help poorer families with the cost of living. In any case, freezing Fuel Duty in September won't help with rising petrol prices now.

Instead, the focus should be on domestic energy bills. Even with the fall coming in April bills are still up 17 per cent, or £236, in real terms since 2020 and could increase by hundreds of pounds more if recent highs in wholesale prices end up fully feeding through to bills. Here, given the stretched nature of our public finances, the Government should aim for cost-effective policy that targets hardship by both incomes *and* energy use. A discounted price for low-income families (sometimes known as a social tariff) is the right instrument to achieve this. So the priority should be to accelerate efforts to ensure this can be delivered ahead of next winter. Previous schemes – the Energy Price Guarantee (EPG), the Energy Bills Support Scheme, and the recent reallocation of some policy costs from bills to the Exchequer – provided blanket support to households, regardless of incomes. Meanwhile payments through the welfare system – either cash or via bill discounts – are not scaled by energy use. In contrast, a social tariff can also target by tariff type to avoid unnecessarily supporting the four-in-ten households on fixed tariffs, a situation that is very different to 2022. If a social tariff cannot be delivered in time, removing some policy costs combined with uprating Universal Credit is the best fallback – better targeted than lump sums and less distortionary than an EPG – but it remains a poor substitute.

## Sharp rises in energy prices are increasing cost of living pressures

The clearest economic impact the UK faces from conflict in the Middle East comes from another unwelcome rise in the cost of energy. Oil prices have been volatile, increasing rapidly from around \$70 per barrel to more than \$100 (Figure 1). Wholesale gas prices have also risen sharply, along with a range of other products which depend on the price of hydrocarbons. If sustained, these higher energy costs will bleed into a rise in other prices too, exacerbating the already [high cost of the living](#).

Figure 1 **Oil prices have jumped since the start of the war in Iran**

Brent crude oil spot price



Source: US Energy Information Administration, Crude Oil Prices: Brent – Europe.

The extent and duration of these cost of living pressures will depend on how the conflict unfolds. While that is unknowable at this stage, so far at least, the rise in energy prices is smaller than that following Russia's invasion of Ukraine. Nonetheless, while we should all hope for a swift end to the conflict, the Government should be planning for the worst. So below we look at the case for support across petrol and domestic energy bills, setting out some options for policy makers.

### Calls to postpone Fuel Duty rises are misplaced

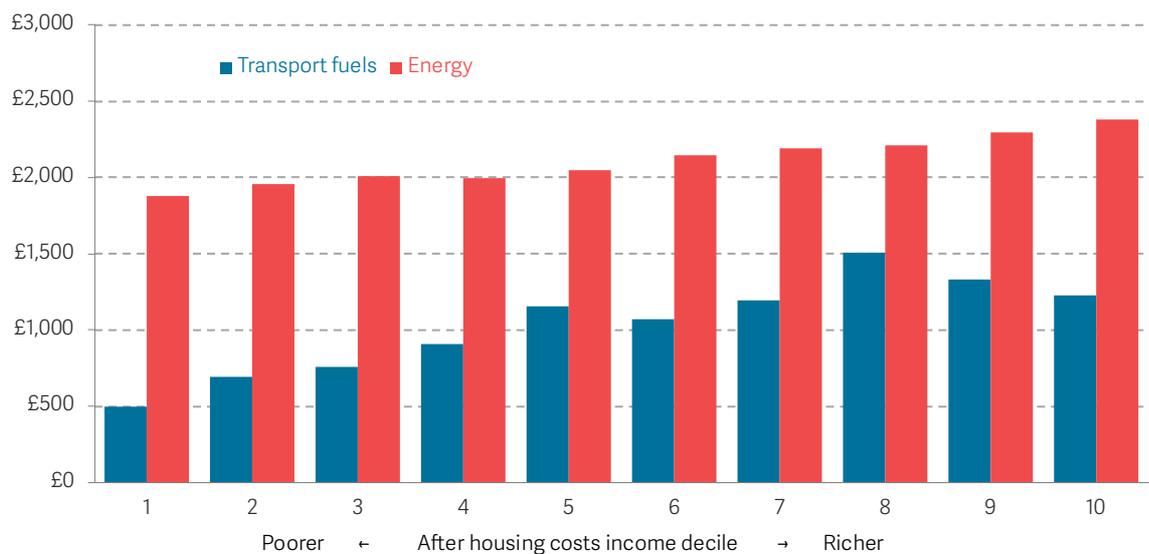
Rising oil prices translate quickly into higher petrol prices, and we have already seen the [price of petrol](#) rising from around £1.32 per litre (for unleaded) at the beginning of March to around £1.40 per litre on Monday, equivalent to almost £4.50 more to fill a typical (55 litre) tank. Should Brent oil prices hover around \$100 per barrel, we would expect a further [rise to around £1.50 a litre](#).

Protecting petrol prices should not, however, be the priority for government. Unlike energy bills, substantially more petrol is consumed by richer families than by those who are poorer (see Figure 2). Indeed, middle-income families spend, on average, almost twice as much on domestic energy as they do on transport fuel, whereas the poorest tenth of families spend

almost four times as much. Further, the price at the pump is low by historical standards: before the conflict started, the relative price of petrol (that is the price of petrol compared to the wider basket of consumer goods) was close to its lowest level since 2003 and the cost of filling up a typical tank is still around the same price as before the pandemic in real terms. Even a rise to £1.50 per litre would still leave petrol cheaper in real terms than its post-pandemic average (of £1.60 per litre). The situation for energy bills is quite different: even after the fall coming in April energy bills are still up 17 per cent, or £236 in real terms, compared to early 2020 levels.

All this suggests that interventions to bring down the price of petrol would be, at best, poorly targeted and there is a strong case for allowing the rise in petrol prices to feed through into lower consumption. This is particularly true of calls to cancel the planned rise in Fuel Duty in September – we don't have a clear sense of where oil prices will be next week, let alone where they'll be by then. That said, [initiatives that ensure](#) retail petrol markets work effectively to minimise the rise in prices are welcome.

Figure 2 **Richer families consume more petrol**  
Total expenditure on energy and transport fuels, by income decile: UK, 2023-24



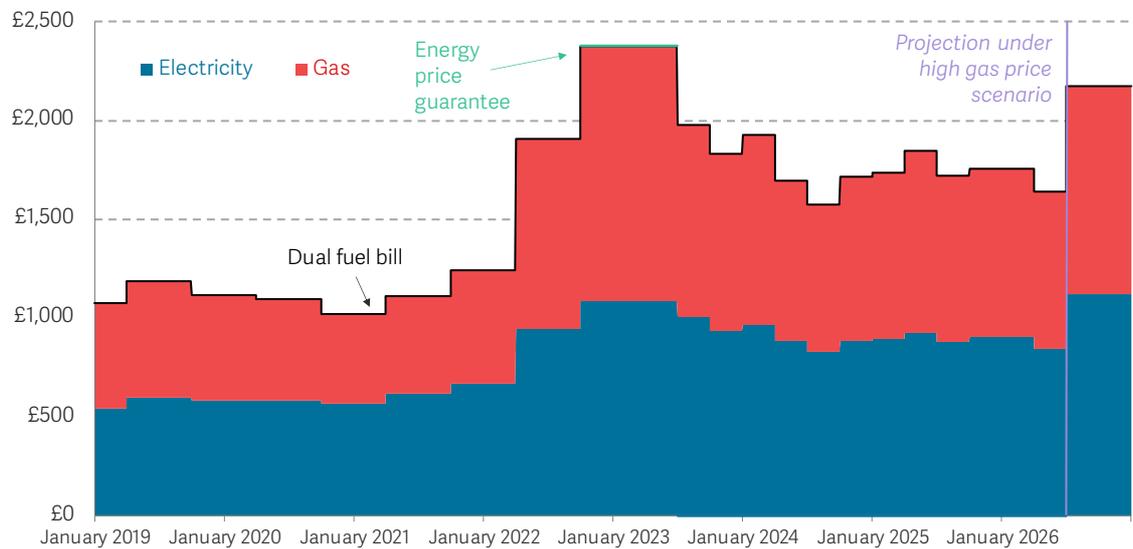
Notes: Energy includes gas, electricity and liquid fuels.  
Source: RF analysis of ONS, Living Costs and Food Survey.

### The Government should prepare to support families facing higher energy bills, and thankfully it still has time to act

The wholesale price of natural gas jumped sharply following [attacks on Liquefied Natural Gas infrastructure in Qatar](#), the region's largest exporter, as well as blockages in the Strait of Hormuz. UK spot prices are around three-fifths higher than they were before the conflict began. This creates huge uncertainty over where the July price cap will land: current prices imply an [increase of around £230](#) on April's level, a prolonged return to the highs seen in early March could mean an [uplift of around £500](#) (shown in Figure 3), and a deepening of the

crisis may even see [annual bills hit £2,500](#). It isn't hard, therefore, to imagine bills reaching levels at which government support has previously been provided.

Figure 3 **Prolonged highs in gas prices could push up the price cap by around £500**  
Historical annualised default tariff cap levels, direct debit customers with typical consumption, and projection under high gas price scenario: GB



Notes: Assumed Typical Domestic Consumption Values of 2,700 kWh electricity and 11,500 kWh gas in line with Ofgem price cap methodology. The price cap change from Q3 2026 onwards is the projected increase based on wholesale gas and electricity prices as of 3 March 2026.  
Source: RF analysis of Ofgem price cap; Intercontinental Exchange; Trading Economics data.

While the situation is clearly concerning, the Government need not rush to provide policy support. The price cap means that customers on standard tariffs will not face rising bills until July at the earliest. Even then, lower consumption in summer months means the impact on bills will be limited until the temperature drops next winter. Another key difference to the 2022 shock is that four-in-ten billpayers are on fixed tariffs, the highest level since early 2021 and four times the share during the peak of the 2022-23 crisis. Thankfully, there is also less of a likelihood of these customers being bumped onto variable tariffs against their will, as was the case in the 2022 spike after a slew of company failures pushed customers onto standard tariffs with larger suppliers. This is because of the lower prevalence of smaller, less robust and less capitalised firms (accounting for just 2 per cent of customer accounts in late 2025).

### **The existing shielding of a large number of households from higher prices is the key determinant of how policy should respond**

To avoid overspending at a time when public finances are in far from rude health, any Government intervention should be able to distinguish between these two very different consumer bases and ensure any support is only delivered to those actually seeing price increases by virtue of being on standard tariffs. But even within the group facing higher bills, directing support to those in genuine hardship is far from straightforward. Energy shocks have hugely varied impacts on living standards depending on factors like household income,

family size and the energy efficiency of the home – factors that are relatively fixed in the short term. And [energy need varies far more within income bands than between them](#), meaning that support must target the intersection of low income *and* high consumption, not just one or the other.

Previous schemes ducked this challenge entirely. The Energy Bills Support Scheme, the Energy Price Guarantee, and the recent decision to shift some renewable policy costs off bills all reduced bills for every household, regardless of income.

Providing poorer households with a discounted price per unit of gas and electricity – a 'social tariff' — is one of the few ways to meet this challenge directly. It delivers greater support to households that use more energy and can exclude those on higher incomes. Crucially, it can also be easily targeted by consumer tariffs, either only targeting standard tariffs or being made available to those whose fixed deals are coming to an end, thereby avoiding any subsidy flowing unnecessarily to those already locked into deals at lower prices.

The largest barrier to delivering such a scheme is that income and energy data are not generally available on the same system. The Government is [taking some action](#) to remedy this by linking energy use data and income data, and it does now deliver Winter Fuel Payments with an income threshold. Improving this infrastructure should be a top priority.

### **What are the other policy options should a social tariff not be deliverable?**

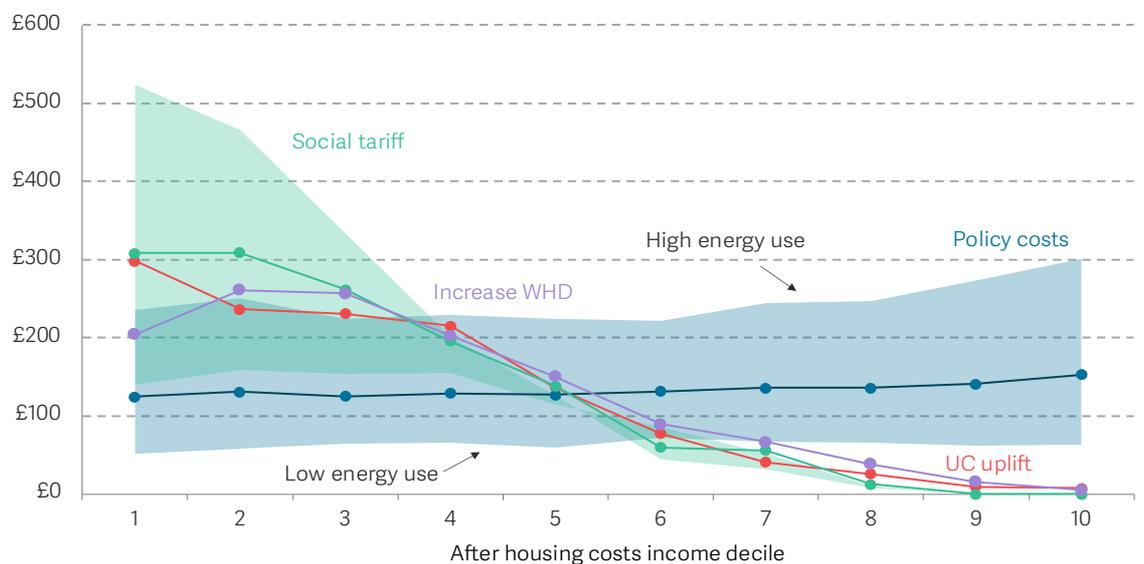
The Government has a number of existing levers that could be used to provide cost of living support through an energy-price spike, either targeted through the benefits system or universal if directly through energy bills. Support can also be provided either as a lump sum or by reducing the marginal price of energy. We consider four options in addition to a social tariff, all of which would cost around £3.75 billion if implemented for a full year, a realistic maximum that can be achieved through reducing policy costs, equivalent to roughly £130 per household:

- Removing more **policy costs** from energy bills, as well as the carbon price support, which we've [previously argued](#) are price distortions that unhelpfully elevate bills and dampen the incentive to electrify.<sup>1</sup>
- A re-introduction of the **Energy Price Guarantee** (EPG) which would cap energy prices for households on standard tariffs, with the Government stepping in to cover any costs above the stipulated cap. A £3.75 billion budget would mean a 9 per cent discount on unit prices for all households, though the actual discount would depend on future energy prices.
- A temporary boost to **the Universal Credit Standard Allowance** to cover short term extra costs. The increase is £8.60 per week (or £13.50 for couples).

- Increase the **Warm Home Discount** payment by £570, an annual scheme providing energy bill discounts to households on means-tested benefits.
- Drawing on our [previous work](#), we compare these schemes with a **social tariff**, which provides a 21 per cent discount to electricity and gas unit prices to those with gross incomes below £38,000 (covering 42 per cent of households), a similar threshold to the £35,000 cutoff for Winter Fuel Payments.

Of course, the other options could be scaled up or down depending on the size of the price rise and the desired amount of support, but this £3.75 billion envelope is a realistic maximum that can be achieved through acting on policy costs. If any of the options were brought in for only part of a year (such as from the October price cap) they would have a proportionately lower cost. This is intended not to propose what the right size for policy intervention – which would depend on future prices – but allow comparisons of the effects. Figure 4 shows the impact of these policies across income groups. The EPG is not shown due to its similarity to removing policy costs. The lines show the mean cash value of each policy option in each income decile and the shaded areas show how cash benefit varies between those in the top and bottom quintile of energy use (measured by total bills) within each income decile.

Figure 4 **None of our alternatives direct support to those that are poor and those with high energy use**  
 Cash benefit of policy option by after housing costs income decile and energy use: 2025-26, UK/ GB/ England



Notes: High energy use households are in the top quintile of energy use within their income decile; low energy use households are those in the bottom quintile. The effect of the Energy Price Guarantee is not shown for simplicity. Its effect would be very similar to 'Policy costs', with a slightly larger spread between low and high energy use households. This is because not all policy costs are on unit charges, while the Energy Price Guarantee reduces unit prices only. The data underpinning the scenarios GB for policy costs, England for social tariff, and UK for lump sum and UC uplift. WHD = Warm Home Discount; UC = Universal Credit.  
 Source: RF analysis of MHCLG English Housing Survey (social tariff scenario); ONS, Living Costs and Food Survey (policy costs scenario); DWP, Family Resources Survey using the IPPR Tax-Benefit Model (WHD and UC uplift scenarios).

The key point here is that options where eligibility is determined through the benefits system – such as increasing UC or expanding the Warm Home Discount – will prioritise support for those with low incomes but are largely blind to energy use. Options that reduce energy prices directly have the opposite effect, benefitting high-energy-use households more but providing more cash (on average) to richer households than to poorer ones. Of our options, only a social tariff can do both.

Removing policy costs from bills provides support regardless of income but with substantial variation. A high-use household would receive more than double that of a low-use household in every income decile. Meanwhile, acting through the welfare system concentrates the vast majority (87 per cent) of support on the poorer half of households, but those with both low incomes and high energy need would be much better off under a social tariff: this option provides average support of £310 for the poorest tenth of households, rising to £520 for a family with high energy needs.

But the best intervention needs to consider more than just the distribution of benefits. For example, distorting prices and dampening incentives will reduce the extent to which higher prices reduce fossil fuel consumption. Though wholesale gas prices largely dictate electricity costs, discounting household gas prices will disincentivise the electrification needed to decarbonise and reduce fossil fuel dependence. This is one of the reasons why a blanket VAT cut should also be sidestepped.

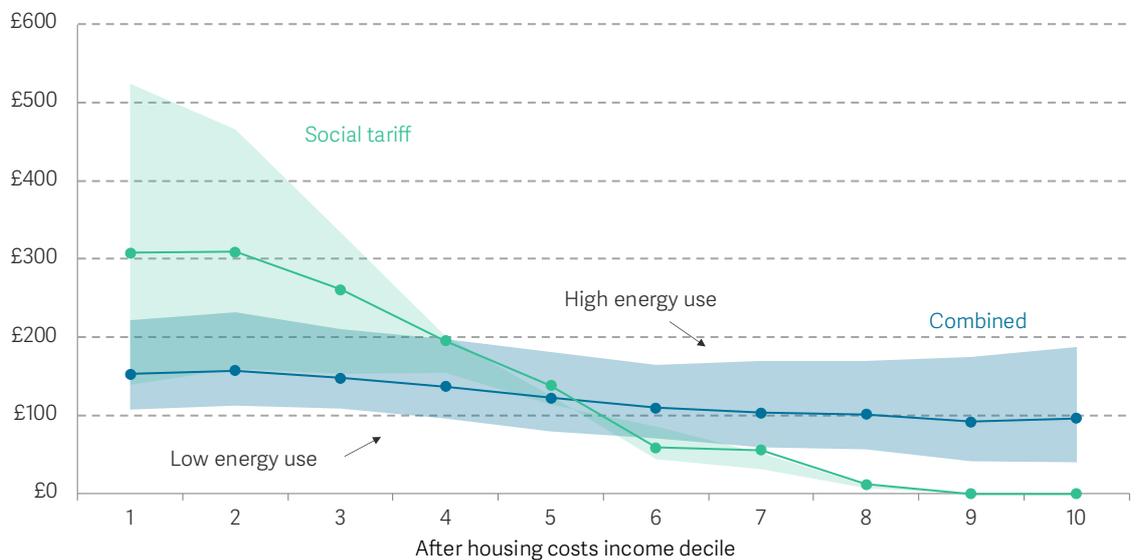
It is therefore wise to avoid another EPG, which would reduce energy unit prices for all customers on standard tariffs (rather than just a subset, as in the social tariff). While it would certainly help those subject to the ups and downs of quarterly price cap announcements, applying a discount to standard tariffs would reduce the incentive for households to fix tariffs and take an active role in ensuring their bills don't jump. A second is the fiscal risks: while this note models an EPG as a fixed cost, in reality its fiscal impact would be hard to control – it effectively represents the Government taking an open-ended short position against global commodity markets, writing [a blank cheque](#) that takes all the risk of higher prices onto the Government's balance sheet.

Removing policy costs and no-longer-necessary electricity taxes instead is a better choice than re-instigating the EPG, as this [fixes price distortions already present in the system](#) that elevate the price of electricity relative to gas. But such a move cannot be targeted by income, and applying discounts only to variable tariffs would be problematic. If we can push down inflation by removing price distortions, rather than by introducing them, we should, potentially even using this crisis as an opportunity to accelerate a reduction in our dependence on fossil fuels.

## A mixture of action on prices and incomes would partially replicate the benefits of a social tariff

In the absence of a social tariff, the competing policy goals – helping both those with high energy use and low incomes – it may help to combine some of the options above. Figure 5 shows the impact of a ‘combined’ scenario, taking the remainder of the costs of the Renewables Obligation scheme and the Warm Homes Discount into general taxation at a cost of £2 billion a year, and removing the carbon price support at a cost of around £200 million. We also include an option to boost the incomes of families claiming UC this year: the Government’s current policy is for the basic rate of Universal Credit to rise above inflation each year from 2026-27 to the end of the Parliament, leaving it 4.8 per cent above what it would have been with inflation uprating in 2029-30. Bringing all the above-inflation rise forward to September 2026, with the rate rising in line with inflation from then on, would boost incomes by £2.40 per week for single claimants and £3.75 for couples this year. This (plus an equivalent temporary boost for Pension Credit claimants) would cost an annualised £1.2 billion in the short term but would have no additional fiscal impact in 2029-30. The total cost of our combined scenario is £3.4 billion (annualised), slightly below the £3.75 billion of other options outlined above.

Figure 5 **A mixed approach can partially replicate the features of a social tariff**  
Cash benefit of policy option by after housing costs income decile and energy use:  
2025-26, UK/ GB/ England



Notes: High energy use households are in the top quintile of energy use within their income decile; low energy use households are those in the bottom quintile.  
Source: RF analysis of MHCLG English Housing Survey (social tariff scenario); ONS, Living Costs and Food Survey (policy costs element of combined scenario); DWP, Family Resources Survey using the IPPR Tax-Benefit Model (UC uprating element of combined scenario).

This combined scenario is a far cry from a true social tariff, offering substantially less to poorer households. There are also other trade offs: on one hand removing policy costs incentivises electrification and fixes long-term issues with the way that energy policies are funded. On the other, families with high gas needs will receive little extra support unless they

also have high electricity use, and differentiating between tariff types is unlikely to be straightforward.

### **The Government should make use of the time afforded to it and prepare a social tariff for this winter**

In setting out alternative options, we have shown that none are able to achieve all three policy goals – supporting those on low incomes, scaling help by consumption, and focussing discounts on those not protected by fixed tariffs – simultaneously. The Government has repeatedly stated that energy bills will not rise until July, but the prevalence of fixed tariffs across British households means that – for some, this delay will be greater still.

This affords policy makers with time to overcome data issues that are holding back the delivery of a social tariff. Data on energy consumption is already well-recorded at meter level and accurate, so the Government would need to leverage existing powers (such as those in the 2017 Digital Economy Act, which are currently utilised to share benefits data with energy companies) to make energy consumption data visible within Government. Ministers should also investigate if this act gives them visibility of consumer tariff types, and make changes if it doesn't.

The trickier challenge is preparing the infrastructure to expand eligibility to those on low and middle incomes but don't receive means-tested benefits (or don't engage with the welfare system). In the end, some compromises may need to be made such as the extent to which it is possible to target household-level rather than individual income, and the timeliness of income data for those outside of the PAYE system. However, with the second energy price shock in a decade we must not miss another opportunity to improve the government's ability to target support effectively, not just for this shock but for those in future too.

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<sup>1</sup>This scenario includes moving into taxation: the rest of the Renewables Obligation (£26 a year on electricity unit prices), Feed in Tariffs (£24 a year on electricity unit prices), the Warm Homes Discount (£46 a year on unit prices and standing charges), the Nuclear Regulated Asset Base (£16 a year on electricity unit prices), Network Charging Compensation (£4 a year on electricity unit prices), the Green Gas Levy (£4 a year on gas standing charges) and Assistance for Areas of High Energy Distribution Cost (£2 a year on electricity unit prices) and removing the Carbon Price Support (£7 a year on electricity unit prices). The total bill impact is an average of £128, but once reduced VAT is taken into account that rises to £134, or 8 per cent of the Q2 2026 price cap. Note that these figures are mean averages and therefore slightly higher than those applied to 'typical' bills.