

Research Briefing

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Domestic energy prices



Summary

- 1 Context: domestic energy use
- 2 How have energy prices changed?
- 3 Variations in prices
- 4 Why have prices increased so rapidly?
- 5 How much do people actually spend on energy?
- 6 How do gas and electricity prices vary across Europe?
- 7 How might energy prices change in the future?

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Contents

Summary	4
1 Context: domestic energy use	9
2 How have energy prices changed?	11
3 Variations in prices	18
3.1 How do prices vary by supplier and payment method?	18
3.2 How do prices vary across the country?	20
4 Why have prices increased so rapidly?	23
4.1 What are the cost components of a typical energy bill?	25
4.2 What makes up the price cap?	26
5 How much do people actually spend on energy?	32
5.1 How does spending on energy vary by income?	34
6 How do gas and electricity prices vary across Europe?	37
7 How might energy prices change in the future?	39

Summary

Wholesale energy prices increased rapidly in the second half of 2021. Many consumers were protected, at least initially, by the energy price cap. However, the price cap increased by 54% in April 2022. There were further large jumps in wholesale prices after Russia invaded Ukraine.

The monthly increases in both gas and electricity prices were by far the largest ever on a series going back to 1988. The annual increases to April 2022 were also the largest ever recorded on a series going back to 1970.

Households in Northern Ireland and those who do not use gas or electricity to heat their homes are not protected by the price cap. Prices of heating oil have more than doubled in recent weeks.

Many observers predict that the price cap will increase substantially in October 2022. The chief executive of Ofgem said it could rise by 40% to around £2,800. Other more recent forecasts have been in the region of £3,000 and fixed price deals in April averaged over £3,000.

The price increases that consumers have already faced have led to concerns about the impact on vulnerable households, particularly those in fuel poverty, who might not be able to heat their homes properly.

There is no price cap on non-domestic energy so increases in business energy bills will feed through to higher consumer prices in general. There are also likely to be wider negative impacts on the economy, particularly if prices continue to increase.

This paper looks at data on trends and variations in domestic energy prices and the prospects for prices in the near future.

Trends in prices up to 2021

Gas prices were stable or falling for much of the period from 2013 to 2020. They increased towards the end of 2021. The average bill for the year was £575 compared with almost £700 in 2014.

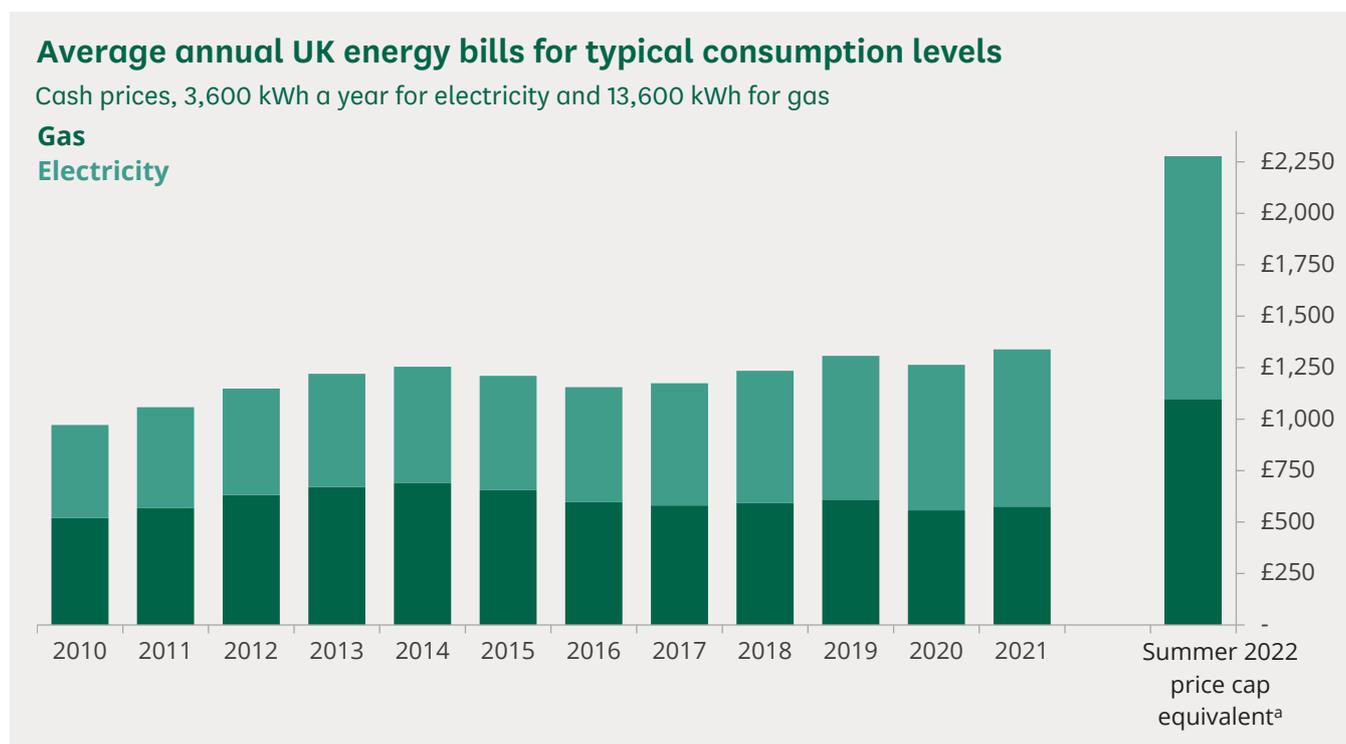
Electricity prices increased for much of the last decade. Average bills were £760 in 2021 compared to £450 in 2020, a 36% real increase.

Average heating oil prices increased from just over 20 pence a litre at the start of the first lockdown to more than 90 pence a litre in mid-May 2022.

Prices in 2022 and beyond

The energy price cap increased by 12% in October 2021 and 54% in April 2022. The April increase is equivalent to £700 more across a year for ‘typical’ levels of dual fuel consumption paid by direct debit.

Higher wholesale prices, especially after Russia invaded Ukraine, have led some to forecasts that the cap could increase by a further 40-50% in October 2022.



Note: Calculated as the cap standing charges plus unit costs multiplied by BEIS assumptions of typical annual consumption

Sources: [Annual domestic energy bills](#), BEIS (Tables 2.2.1 and 2.3.1); Ofgem, [Default tariff cap level: 1 April 2022 to 30 September 2022](#)

Crude oil prices jumped when Russia invaded Ukraine on 24 February 2022 and continued to increase through early March. These increases quickly fed through to heating oil prices. Daily data show that average UK prices increased from 67 pence per litre just before the invasion to 81 pence per litre at the end of February and a peak of 160 pence per litre on 10 March. Since then prices have fallen back somewhat, and were around 107 pence per litre in late June.

Government support packages

In February 2022 the Government [announced a package of support to help households with rising energy bills](#), including a £200 upfront discount on bills in October 2022 (paid for by customers in £40 instalments over the following five years), a £150 Council Tax rebate for around 80% of households in England, £144 million in discretionary funding for local authorities and £715 million for the devolved administrations.

On 26 May 2022 the Chancellor [announced](#) a further package of measures intended to help with the cost of living, including higher energy bills, in 2022-23. This included:

- Doubling the upfront discount on bills to £400 for all households and scrapping the requirement for it to be repaid.
- A £650 one-off payment to around 8 million households on certain means tested benefits
- A £150 one-off disability cost of living payment for people who receive certain disability benefits
- A one-off £300 payment for over 8 million pensioner households
- An additional £500 million of local support through the Household Support Fund.

Households can receive multiple elements of this package if they are eligible. The total value of this additional support in 2022-23 is £15.3 billion. The gross cost is £21.3 billion as it converts £6.0 billion of earlier support from a loan to a grant. This extra spending will be partly supported by a new windfall tax the '[Energy Profits Levy](#)' which the Government expects to raise £5 billion in its first year.

Causes of price increases

Prior to Russia's 2022 invasion of Ukraine there was an increase in demand for oil and gas as economies around the world came out of lockdown. Supply did not generally keep pace with the higher demand for various reasons. Increased gas prices fed through to increased electricity prices.

The Russian invasion of Ukraine in 2022 caused oil and gas prices to jump due to concerns about disruption to supply. Sanctions on Russia and the potential for an embargo on Russian oil and gas have pushed oil and gas prices up further still.

Impact of price rises on lower income households

Spending on energy varies less by income than any other spending category. This means lower income households have to spend a much larger share of their family budgets on energy than higher income groups. Recent sharp increases in energy prices will have a disproportionate impact on lower income households. The April 2022 price rise and expected increase in October 2022 suggest that it would cost the poorest 20% of households an additional £1,300-1,400 to use as much energy in 2022-23 as they did in 2019-20. This is before the extra support the Government has announced is taken into account.

Components of a typical energy bill

The Summer 2022 price cap, introduced on 1 April, consists of:

- 54% wholesale costs of energy
- 19% network costs
- 10% operating costs

- 8% policy costs (levies to support low carbon generation, energy efficiency and vulnerable customers)
- 5% VAT
- 2% assumed suppliers (profit) margin
- 2% other costs

Variations in prices

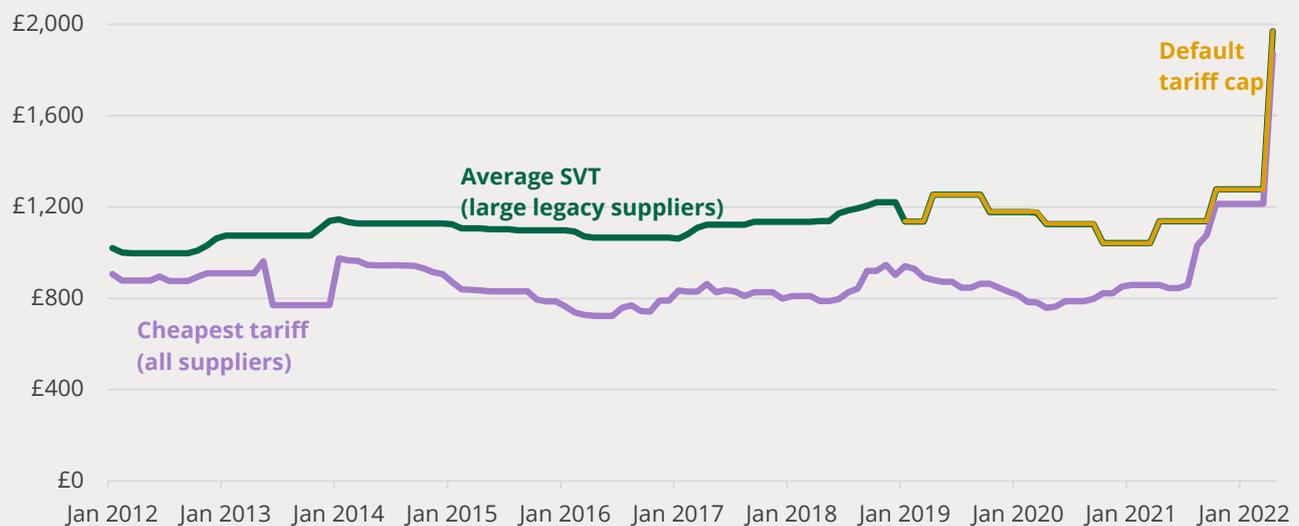
Customers who pay by direct debit have traditionally been offered the cheapest tariffs. The gap between payment methods has fallen over time, especially after 2017 when a price cap on prepayment meters was introduced.

There is relatively little difference in energy prices across the country. Combined gas and electricity bills for typical levels of consumption varied in 2021 from around £1,280 in the East Midlands to £1,360 in Merseyside and North Wales.

Over much of the last decade smaller energy suppliers have tended to offer cheaper tariffs than the standard variable tariffs (SVTs) offered by large established companies. Wholesale price rises from summer 2021 has meant that most of these cheaper offers have been withdrawn.

The gap between the price cap and the cheapest tariff narrowed rapidly in 2021 and 2022. Price cap increased by 54% in April 2022.

Average annual direct debit dual fuel bill for typical levels of consumption, cash prices, Great Britain



Source: [Ofgem, Retail Market Indicators, Prices and Profits](#)

In the first half of 2021 UK domestic gas prices were below those in most of the EU, while UK electricity prices were higher than in most of the EU.

Readers may be interested in the following related briefing papers from the House of Commons Library:

[The energy price crunch](#)
[Energy price rises and the Energy Bills Rebate.](#)
[Rising cost of living in the UK](#)
[Fuel Poverty in the UK](#)
[Oil prices](#)
[Petrol and diesel prices](#)
[Energy bills and tariff caps](#)
[Imports of energy from Russia](#)

The following pages include the most useful official data on energy prices:

[Domestic energy price statistics](#) (BEIS)
[Retail market indicators](#) (Ofgem)
[Wholesale market indicators](#) (Ofgem)

1

Context: domestic energy use

Energy used in the home – electricity, gas, heating oil, etc. – made up 31% of total final energy consumption in the UK in 2021. Gas was the largest source of domestic energy use (accounting for 66% of energy use), followed by electricity (23%), oil (7%) and renewables for heat (3%). Domestic energy use has generally been falling over time. In 2021 it increased by 5% but was still 16% below its 2004 level.¹ Households collectively spent £35.4 billion on energy in 2020. £20.2 billion of this was for electricity (its highest ever level) and £13.5 billion for gas.²

1 Operation of the energy price cap

The '[Default Tariff Cap](#)' for gas and electricity, also known as the energy price cap, came into force at the beginning of 2019. It followed the introduction of tariff caps for customers on prepayment meters in April 2017 and for vulnerable customers in February 2018. It covers prices for customers on default or standard variable tariffs.

The cap sets maximum prices for a unit of energy and daily standing charges for customers in Great Britain. It does not cap maximum annual bills. Ofgem multiplies these capped unit prices for gas and electricity by 'typical' annual consumption levels and adds these to daily standing charges to arrive at an illustrative annual bill.

The regulator Ofgem reviews the levels of the cap twice a year, publishing updates in February, which set the levels of the cap in summer (April-September), and August, which sets the cap for winter (October-March).

On 3 February 2022 the Ofgem [announced](#) that the cap would increase in April from its current equivalent annual equivalent level of £1,277 per year to £1,971; a 54% increase. This is for direct debit customers from April 2022. The caps for other payment methods are somewhat higher. Ofgem has said that there are currently around 22 million customers on variable tariffs covered by the different caps.³

An individual customer's annual bill will largely depend on how much energy they use. The cap applies where a customer has not signed up for a fixed-term contract with their supplier (they are on a 'standard variable tariff'). Some customers coming to the end of their (cheaper) fixed-term deals are likely to face even larger price increases. Because suppliers are not currently offering fixed-term contracts, these customers would be moved by default onto the (higher) price cap level.

¹ BEIS, Energy Trends total energy (Table 1.3)

² BEIS, [Digest of UK energy statistics 2021](#) (Tables 1.1, 1.1.5 & 1.1.6)

³ [Price cap to increase by £693 from April](#), Ofgem 3 February 2022

See the Commons Library briefing paper [Energy price rises and the Energy Bills Rebate for further background](#).

Consultation on changes to the price cap

On 16 May Ofgem published a consultation on the price cap methodology which included a proposal update the price cap quarterly rather than every sixth months. If implemented this would mean that the new caps introduced in October 2022 would last three months and new cap levels would come in January 2023.⁴

⁴ Ofgem, [Price cap - Statutory consultation on changes to the wholesale methodology](#) (16 May 2022)

2

How have energy prices changed?

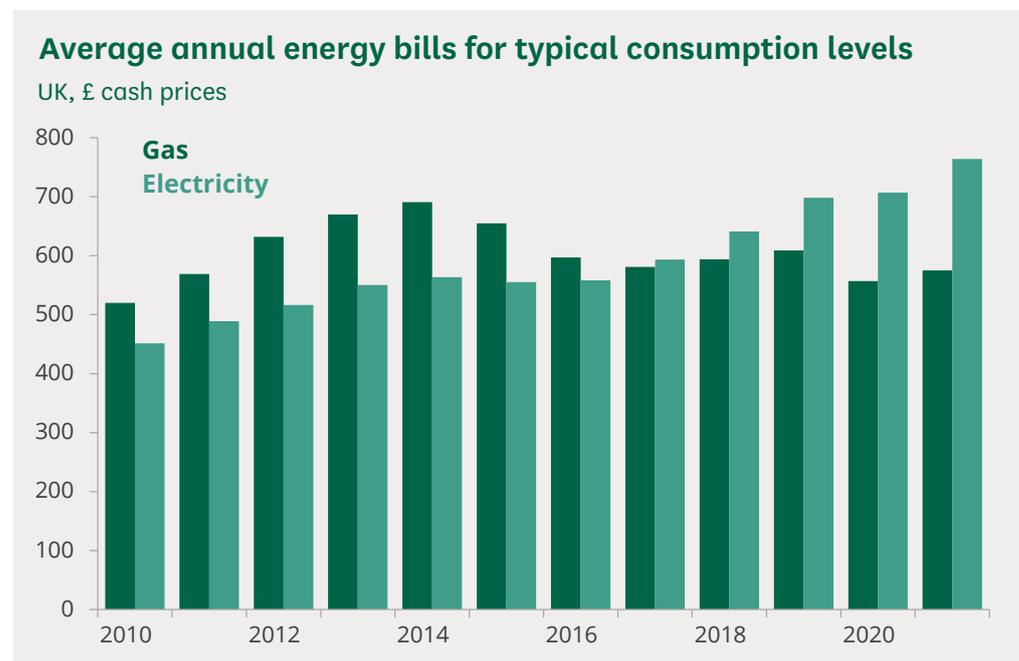
Official statistics

Annual gas and electricity bills

The Department for Business, Energy & Industrial Strategy (BEIS) publishes annual figures on gas and electricity bills. These take average unit prices and multiply them by ‘typical’ levels of consumption. This is added to average annual fixed costs (standing charges) to give annual bills.

BEIS assumes that typical levels of consumption are 3,600 kWh for electricity and 13,600 kWh for gas. These consumption levels are periodically reviewed and changed, but time series data uses the same levels of consumption throughout so figures on bills reflect changes in prices only, not changes in consumption.

The first chart below looks at the cash values of these average bills since 2010. Gas bills increased from just over £500 in 2010 to almost £700 in 2014. They fell to below £600 over the next three years and remained in the £550-600 range up to 2021.

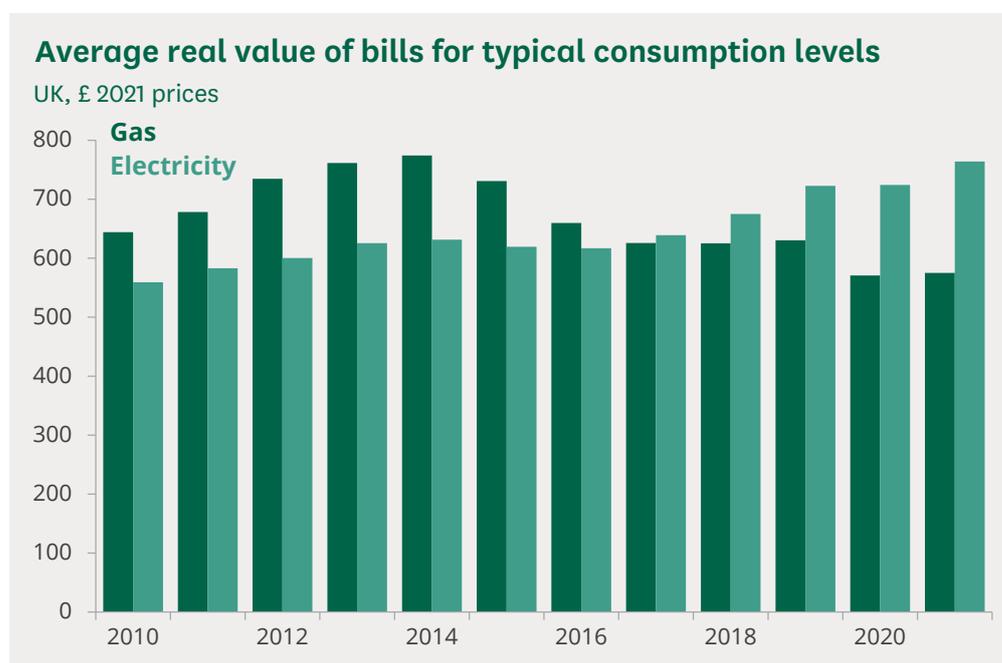


Source: [Annual domestic energy bills](#), BEIS (Tables 2.2.1 and 2.3.1)

Electricity bills⁵ increased more steadily over the period from around £450 in 2010 to just over £760 in 2021. The data for 2021 use average prices for the whole year, so only take partial account of price rises from late 2021 onwards.

⁵ For customers on single-rate meters, ie. not on Economy & or similar tariffs

The next chart looks at these data in real terms.⁶ Average gas bills in 2021 were 25% below their 2014 levels in real terms. Electricity bills increased in real terms in all but two of the years covered here. Their 2021 level was 36% higher than 2010 in real terms.



Source: [Annual domestic energy bills](#), BEIS (Tables 2.2.1 and 2.3.1)

The combined gas and electricity bill was £1,339 in 2021. Applying values from the price cap for Winter 2021/22 (October to March) to these levels of consumption gives annual totals for direct debit customers of around £640 for gas and £840 for electricity. The summer price cap gives annual equivalent bills of around £1,100 for gas and £1,180 for electricity.⁷ This would give a combined bill around 70% higher than the 2021 figures shown above. These annual bills are higher than those quoted by Ofgem because the official statistics from BEIS assume higher levels of ‘typical’ consumption.

The data for these charts can be found in the [reference table](#) (Excel file) published on the [landing page for this briefing paper](#).

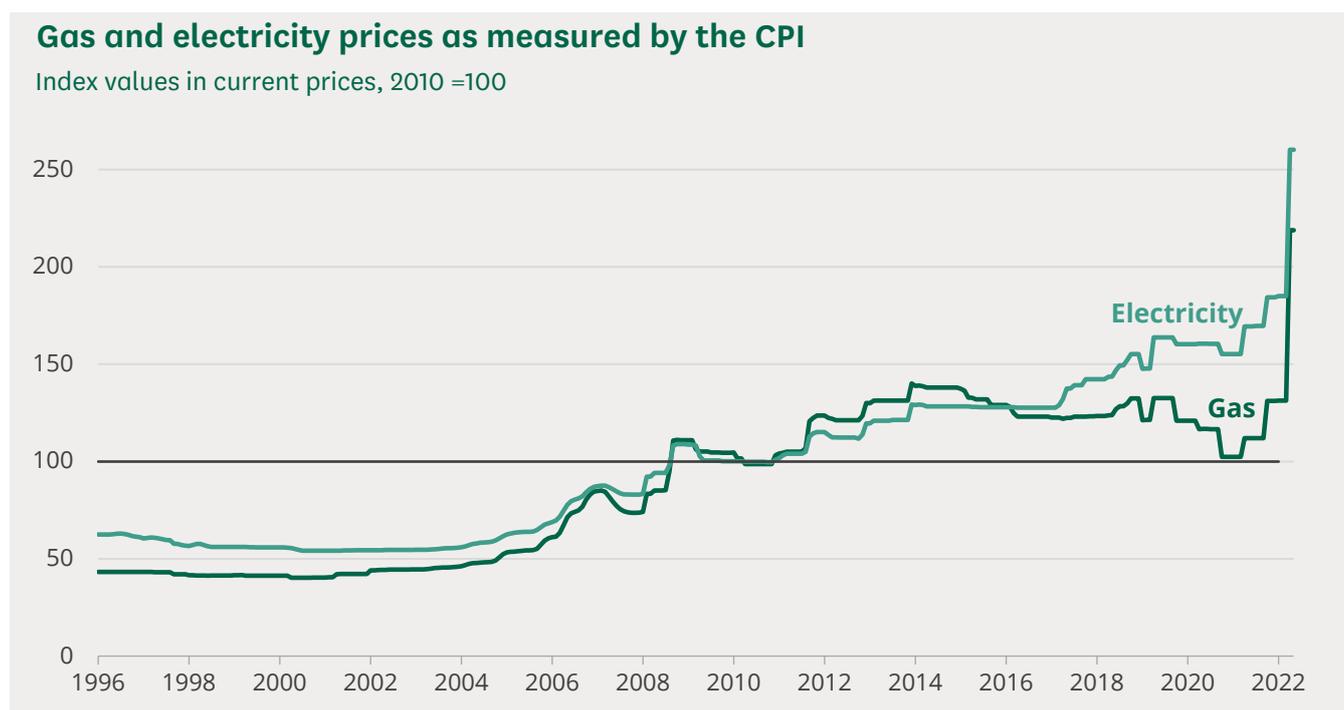
Monthly data from the Consumer Prices Index (CPI)

Monthly data from the CPI is more up to date and responsive to price changes than the annual bills data discussed above. The first chart below shows an index of gas and electricity prices in current (cash) terms. The price of both gas and electricity increased during the 2000s, with particularly rapid price rises in 2006 and 2007. The chart also shows the jumps in prices in April and October 2021 when the price cap increased and the much larger increase in April 2022 following the increase in the price cap.

⁶ Adjusted using CPIH

⁷ Ofgem, [Default tariff cap level: 1 April 2022 to 30 September 2022](#) (Supplementary model - default tariff cap level v1.10)

May 2022 prices for gas were around 430% above their January 2000 level in cash terms, and electricity prices were 360% higher.



Source: [Annual domestic energy bills](#), BEIS (Table 2.1.3)

The monthly increases in gas and electricity prices (on this measure) in April were **67%** and **41%** respectively. These were by far the largest increases on this series which goes back to 1988. The price cap means that changes in prices are ‘stored up’ rather than incremental. The annual increases in gas and electricity prices to April 2022 were **95%** and **54%** respectively. These were the largest annual increases in data going back to 1970. The previous record annual increases were **52%** for gas prices between Q4 2007 and Q4 2008 and also **52%** for electricity between Q2 1974 and Q2 1975.^{8 9}

Data on the fuels used for heating in different parts of the UK is collected in separate surveys. The most recent surveys are for 2016 in Northern Ireland, 2017-18 for Wales and 2019 for both England and Scotland. The latest data suggest that gas is the main fuel used for heating in around 86% of homes in the UK. Electricity is next most common with 8%, followed by heating oil with 6% and solid fuel with around 1%.

There is no price cap for heating oil and extremely large recent price rises have led to concern about the impact on households that rely on it for heating. The latest data suggest that around 1.6 million homes across the UK

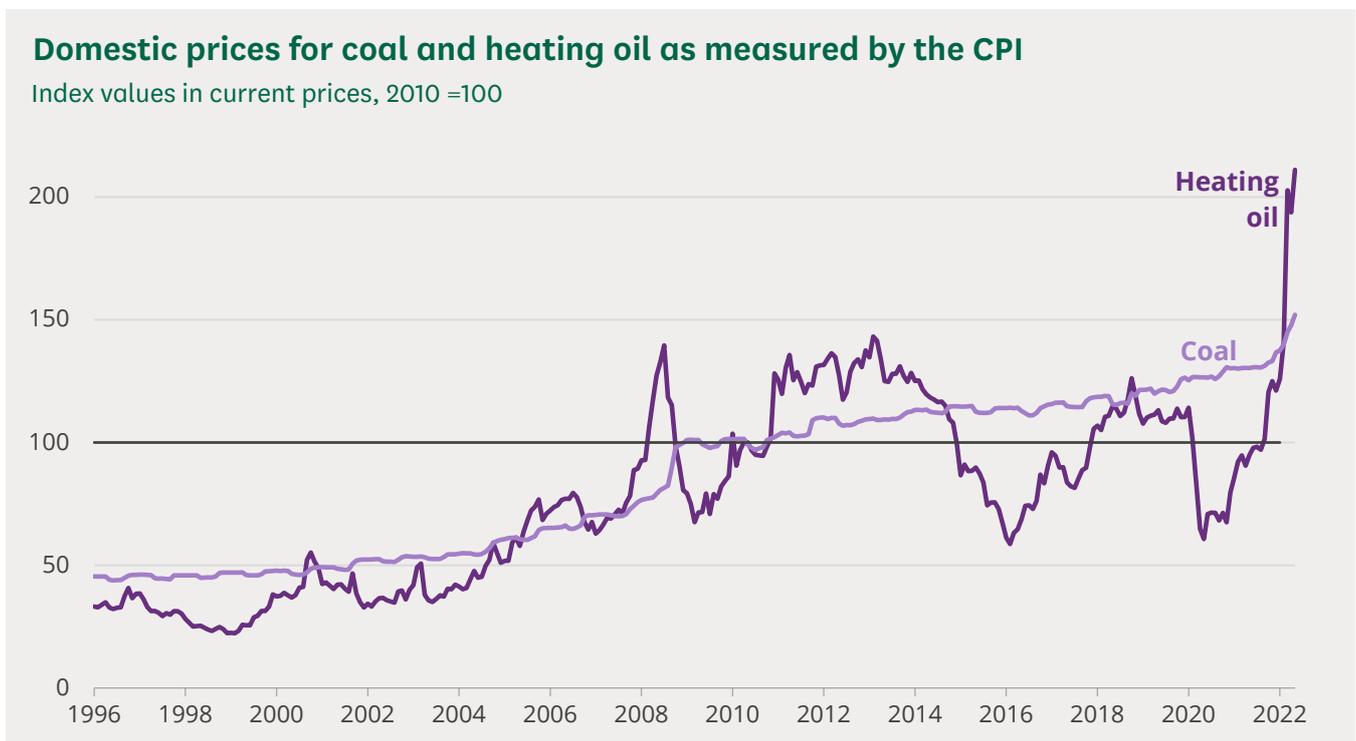
⁸ ONS series [D7DU](#) and [D7DT](#)

⁹ Source: Quarterly fuel prices table 2.1.1 (archived), DECC

use heating oil. Northern Ireland had by far the highest rate of heating oil use with 67.5% of homes in 2016.¹⁰

The next chart looks at CPI data on domestic prices for these fuels. Heating oil¹¹ prices are closely linked to crude oil prices so are highly volatile. They fell rapidly in the early months of the pandemic, but soon recovered and more than doubled between May 2020 and January 2022. There was a particularly sharp increase in prices in March 2022. The Library briefing paper [Oil prices](#) provides more information on crude oil price trends. The section below gives more details of recent heating oil prices.

Domestic prices for coal have steadily increased for most of this period with particularly rapid increases between 2006 and 2009.



Source: [Annual domestic energy bills](#), BEIS (Table 2.1.3)

Recent heating oil prices

The chart above shows longer term trends in heating oil prices. Data from BEIS shows that average UK heating oil prices fell to just over 20 pence a litre in mid-May 2020. The pandemic and resulting lockdowns led to a sharp drop in crude oil prices which fed through to heating oil. Prices generally increased through the rest of 2020 and most of 2021 reaching almost 60 pence a litre in mid-October. After falling back over the next two months heating oil prices

¹⁰ Department for Communities (NI), [Northern Ireland Housing Statistics 2020-21](#) (Section 2 tables). Statistics for Wales, [Welsh Housing Conditions Survey \(energy efficiency of dwellings\): April 2017 to March 2018](#). Housing and Social Justice Directorate, [Scottish house condition survey: 2019 key findings](#). DLUHC, [English Housing Survey data on energy performance](#) (Table DA6101)

¹¹ 'Liquid fuels' under the CPI

increased slightly in January and February as concern increased about a possible Russian invasion of Ukraine led to higher crude prices. They subsequently jumped after the invasion, were 85 pence per litre in both mid-March and mid-April 2022 and increased again to 91 pence per litre in mid-May.¹²

Crude oil prices jumped when Russia invaded Ukraine on 24 February 2022 and continued to increase through early March. This set new record high Sterling prices for crude oil.¹³ It is the price in Sterling which is a better indicator of the likely impact on heating oil prices. Official data on prices show an increase of 44% in the month to mid-March to reach 85 pence per litre. Daily data from boilerjuice.com, from their database of suppliers, show that average UK prices increased from 67 pence per litre just before the invasion to 81 pence per litre at the end of February and a peak of 160 pence per litre on 10 March. Since then prices have fallen back somewhat and stabilised. They were around 107 pence per litre in late June.¹⁴

¹² BEIS, [Monthly and annual prices of road fuels and petroleum products](#) (Table 4.1.1)

¹³ See the briefing paper [Oil prices](#) for more detail

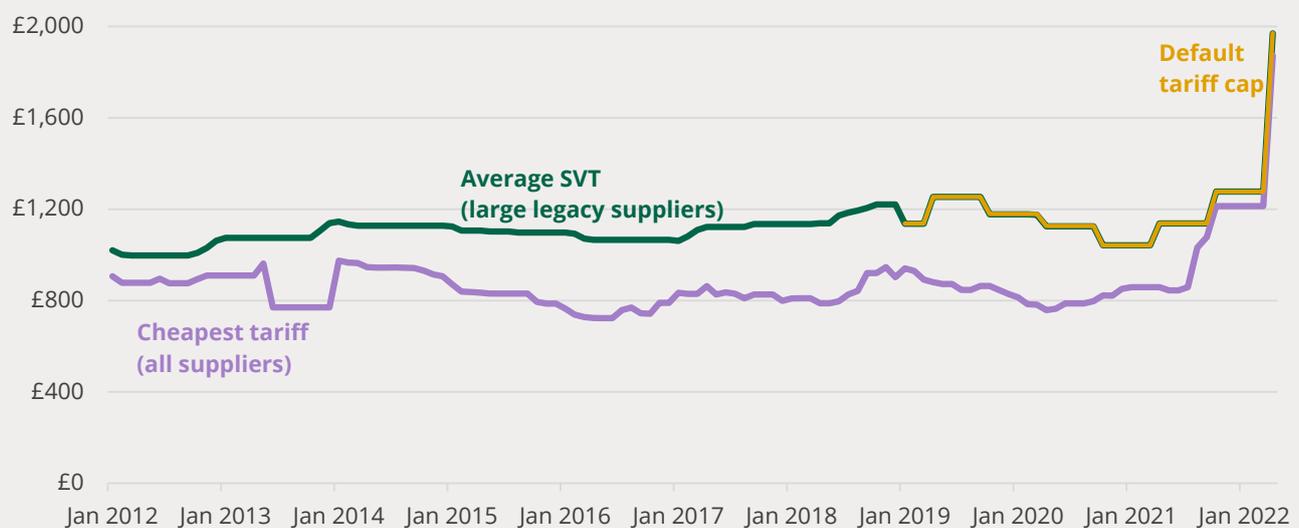
¹⁴ www.boilerjuice.com/heating-oil-prices/ (accessed 21 March 2020)

Ofgem data on typical dual fuel bills

Ofgem publishes monthly figures on average bills for different sectors of the market. These assume lower levels of typical consumption than the BEIS data: 2,900 kWh a year for electricity and 12,000 kWh for Gas. The following chart compares the cheapest tariff available in the market with the average standard variable tariff (SVT), which has been almost equivalent to the price cap since its introduction in 2019. Figures are based on a typical domestic dual fuel customer paying by direct debit.

The gap between the price cap and the cheapest tariff narrowed rapidly in 2021 and 2022. Price cap increased by 54% in April 2022.

Average annual direct debit dual fuel bill for typical levels of consumption, cash prices, Great Britain



Source: [Ofgem, Retail Market Indicators, Prices and Profits](#)

Dual Fuel: A type of energy contract where a customer takes gas and electricity from the same supplier (or two affiliated suppliers).

In 2021, the gap between the price cap (almost equivalent to average SVT for legacy suppliers) and the cheapest available tariff narrowed rapidly. This was because the increase in wholesale prices meant suppliers could not offer cheaper tariffs. In April 2022, the average SVT for legacy suppliers was virtually the same as the price cap at £1,970. The cheapest tariff of all suppliers was £99 cheaper than the price cap at £1,872. The narrow gap between the price cap and the cheapest tariff shows that most customers cannot get a deal below the tariff cap at the moment. Competition in the sector has effectively come to a halt.

The price cap increased by 54% in April 2022, reaching £1,971. The price cap was set at £1,277 in October 2021 and £1,138 in April 2021.

Who are the 'large legacy suppliers'?

The "Big Six" was the name collectively given to the six larger energy companies who supply most of Britain's gas and electricity. Ofgem now refers to these companies as

‘Large Legacy Suppliers’. After recent takeovers there are now five such companies. Each of them generate electricity, and deliver both gas and electricity to homes and businesses.¹⁵ They are:

- Centrica plc (three retail brands: British Gas, Scottish Gas and Nwy Prydain in England, Scotland and Wales respectively)
- E.ON UK (which acquired RWE npower in 2020)
- Scottish and Southern Energy (SSE) now part of Ovo
- EDF Energy
- Scottish Power

¹⁵ [Ofgem, Infographic: Bills, prices and profits, 23 February 2022](#)

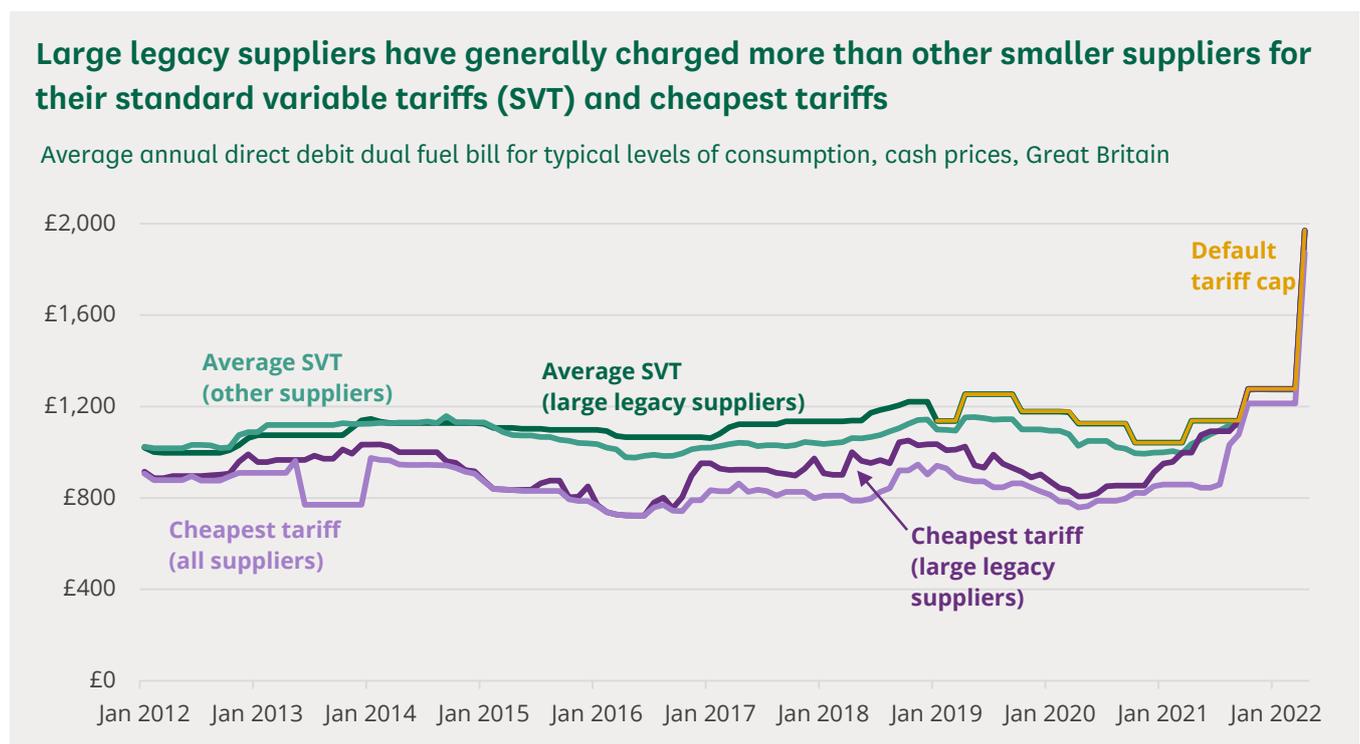
3 Variations in prices

3.1 How do prices vary by supplier and payment method?

Domestic energy bills vary by supplier and payment method. Large legacy suppliers tend to have higher tariffs than other suppliers. Direct debit customers have traditionally been offered the cheapest tariffs, followed by standard credit and prepayment meters.

Variation by supplier

This chart shows trends in domestic energy bills by tariff offered by the large legacy suppliers and all other suppliers. It compares their average standard variable tariffs with the default tariff cap and the cheapest tariffs available in the market (including ‘white label’ tariffs¹⁶).



Source: [Ofgem, Retail Market Indicators, Prices and Profits](#)

¹⁶ Tariffs available with white label suppliers are included in the calculation of the cheapest tariffs. White label suppliers are organisations without supply licenses that partner with an active licensed supplier to offer gas and electricity using their own brand.

Average SVT

From around 2015 the average price of SVTs of other suppliers was marginally lower than legacy suppliers. In 2021, the gap between the legacy and other suppliers narrowed rapidly. The average price of legacy suppliers' SVTs has coincided with the default tariff since its introduction in 2019. In April 2022 onwards, the average SVT for all suppliers (legacy and other) remained close to the price cap at around £1,970.

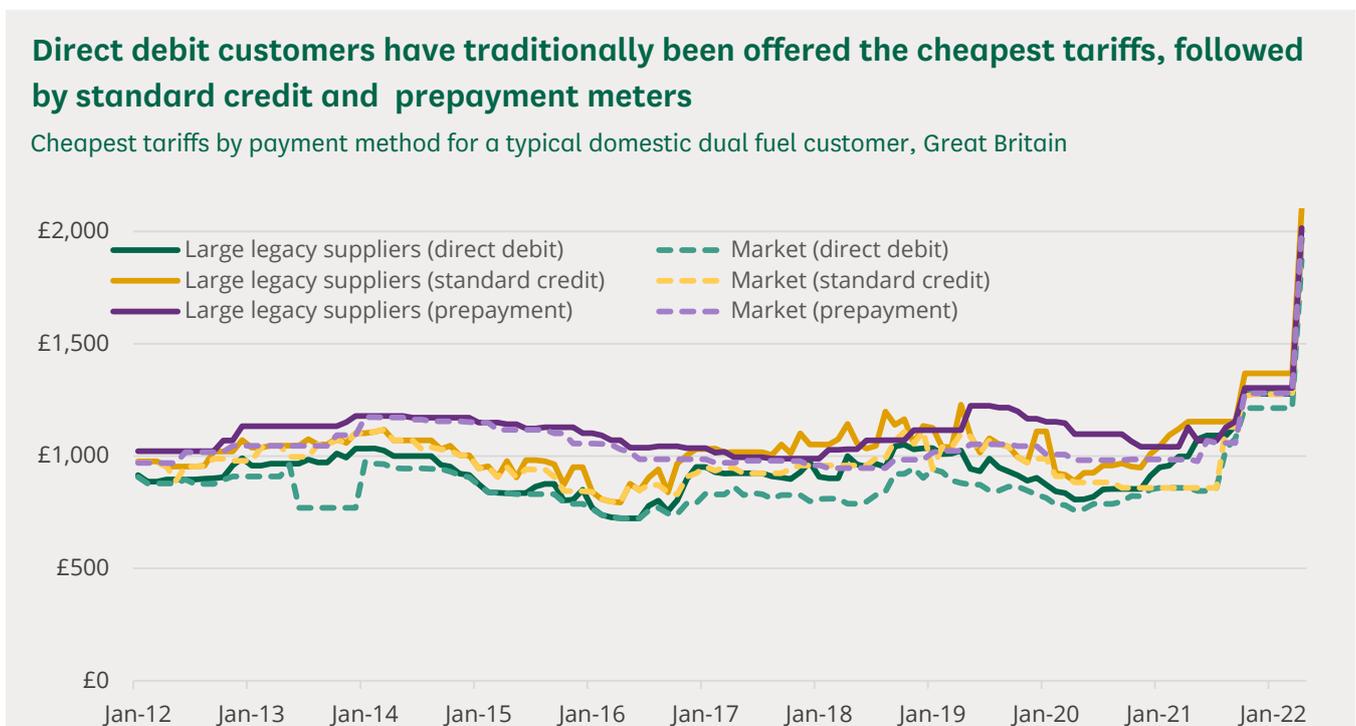
Cheapest tariff

Over the last 10 years (2012-2022), large legacy suppliers have generally not offered the cheapest tariff in the market. From September 2021 onwards, the cheapest tariff for legacy suppliers remained the same as the price cap.

The gap between the cheapest tariff in the market and the price cap (equivalent to the average SVT for all suppliers) dramatically decreased from August 2021 onwards, to a differential of £64 in November 2021 and each subsequent month to March 2022. This remains the narrowest differential since Ofgem started publishing this indicator in 2012. The gap increased to £99 in April 2022 as the cheapest tariff did not increase quite as much as the price cap. Again this shows that competition in the energy supply sector has effectively come to a halt.

Variation by payment method

The next chart compares the cheapest available tariffs offered by the large legacy suppliers with the cheapest tariff available in the market by payment method (direct debit, standard credit and prepayment).



Source: [Ofgem, Retail Market Indicators, Prices and Profits](#)

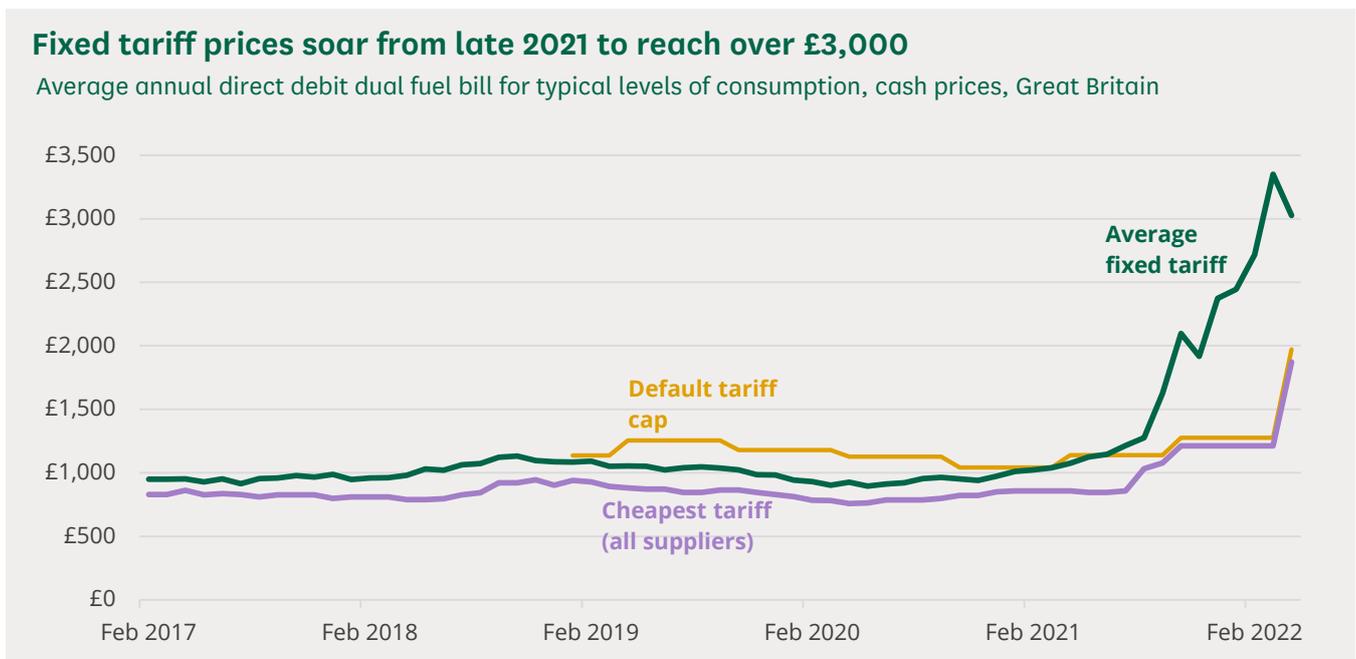
Customers who pay by direct debit have traditionally been offered the cheapest tariffs, followed by those who use standard credit and those who use prepayment meters.

Direct debit customers have continued to have the cheapest tariffs. Whereas there has been fluctuation between the cheapest tariffs for standard credit and prepayment over time. Standard credit tariffs became more expensive than prepayment in early 2017 when the price cap for prepayment customers came in. Their relative position has changed over the past few years.

In April 2022 prices for all payment types increased to reflect their price caps. The cheapest standard credit tariff was £46 cheaper than the cheapest prepayment tariff. The cheapest direct debit tariff was almost £100 cheaper still.

Fixed and variable tariffs

Ofgem data on the price of fixed tariffs goes back to 2017. The chart below compares this to the price cap and the cheapest tariff on the market.



Source: [Ofgem, Retail Market Indicators, Prices and Profits \(Retail price comparison by company and tariff type\)](#)

Average fixed price tariffs¹⁷ were typically priced between the cap and the cheapest tariff on the market from 2019 to early 2021. They increased to above the price cap in mid-2021 and since then have increased very rapidly; from around £1,200 (for typical consumption over a year) in mid-2021 to £2,400 in December 2021 and over £3,000 in March and April 2022. Fixed tariffs are not covered by the price cap and reflect the future price expectations of suppliers. Given the volatility of wholesale prices in recent months they will also include an ‘uncertainty premium’ effectively paid by consumers for the certainty of fixing prices.

¹⁷ Simple average of all fixed priced tariffs launched each month.

3.2

How do prices vary across the country?

The Government publishes average price data for the former regional electricity company areas across the UK. These all use the same assumptions about consumption.¹⁸ Variations in price therefore reflect differences in the prices paid per unit and standing charges. Competition in the sector means that customers are not restricted in their choice of supplier. This reduces variation in prices across the country. However, suppliers face different network costs in different parts of the country, and these will be reflected in prices paid by consumers.

The table below gives the latest data from BEIS on regional bills. The total varied by £86 or around 6%. Average gas prices are not produced for Northern Ireland where most households use heating oil.

Average gas and electricity bills by region in 2021, £				
Typical levels of consumption, direct debit customers				
	Electricity	Gas	Total	Difference from UK total average
Merseyside & N Wales	791	571	1,362	+£48
South West	778	583	1,361	+£47
North Scotland	775	571	1,346	+£33
South Wales	770	573	1,343	+£30
South East	771	568	1,339	+£26
Southern	744	587	1,330	+£17
London	744	581	1,326	+£12
South Scotland	746	573	1,318	+£5
Eastern	748	558	1,306	-£7
West Midlands	742	563	1,305	-£9
North West	729	560	1,289	-£24
North East	737	548	1,284	-£29
Yorkshire	731	549	1,280	-£33
East Midlands	729	547	1,276	-£37
Northern Ireland	710	
UK/GB	748	565	1,313	

Source: [Annual domestic energy bills](#), BEIS (Tables 2.2.3 and 2.3.3)

Ofgem presents data on the price cap as an average for Great Britain. However, there are in fact regional caps which reflect differences in network costs. For the summer 2022 cap:¹⁹

- Standing charges for gas are the same in each region

¹⁸ 3,600 kWh for electricity and 13,600 kWh for gas

¹⁹ Ofgem, [Default tariff cap level: 1 April 2022 to 30 September 2022](#) (Supplementary model - default tariff cap level v1.10)

- Unit costs for gas vary from 7.2 p/kWh in the North East²⁰ to 7.5 p/kWh in London (all prices include VAT)
- Standing charges for electricity vary from 32 p/day in London to 51 p/day in the South West
- Unit costs for electricity vary from 27.1 p/kWh in the North East to 29.6 p/kWh in London

²⁰ Northern Electric area

4

Why have prices increased so rapidly?

Energy price rises before Russia's 2022 invasion of Ukraine

Wholesale energy prices increased dramatically from mid-2021, both globally and in the UK. The UK gas and electricity markets are connected to those in continental Europe, so price trends are also connected. Gas led the price rise, but electricity prices have followed as gas is typically the 'marginal fuel'²¹, especially in Europe. The prices are causing widespread concern and knock-on impacts for both domestic and commercial energy consumers.

The wholesale price rise has several causes. The supply of gas did not keep pace with strong demand growth in 2021 as economies came out of lockdown. The result was record high gas and electricity prices on European and Asian markets. The International Energy Agency (IEA) has said that the "turmoil" in gas markets" is:

...causing potentially significant economic impacts. These include multiple negative effects on power companies, other businesses and industrial sectors, and consumers – in some cases, resulting in government interventions to limit the damage. ...The increases in energy prices have also contributed to broader price inflation that is affecting many economies worldwide.²²

The IEA pointed to several causes behind the inadequate supply. There was a large increase in liquefied natural gas (LNG) capacity 'outages' or disruptions to supply, both for planned maintenance of facilities and various unplanned 'outages'. There were also below average levels of gas storage in Europe. Output in Europe (outside Norway) fell by 10%. Russian production increased by 10% in 2021 to a record level. However, gas supply from Russia to the EU fell by 3% due to lower transit flows via Belarus and Ukraine. Russian exports to Turkey increased by 60% in 2021 and it also exported more gas to China.²³

In a January 2022 article the Executive Director of the IEA said:

We see strong elements of 'artificial tightness' in European gas markets, which appears to be due to the behaviour of Russia's state-controlled gas supplier. Unlike other pipeline suppliers – such as Algeria, Azerbaijan and Norway – Russia has reduced its exports to Europe by 25% in the fourth quarter of 2021 compared with the same period in 2020 – and by 22% compared with its 2019 levels. And this is despite the exceptionally high market prices for natural gas that we have seen in recent months.

²¹ The fuel used for peak load generation which responds to short term changes in demand

²² [Europe and the world need to draw the right lessons from today's natural gas crisis](#). IEA 13 January 2021

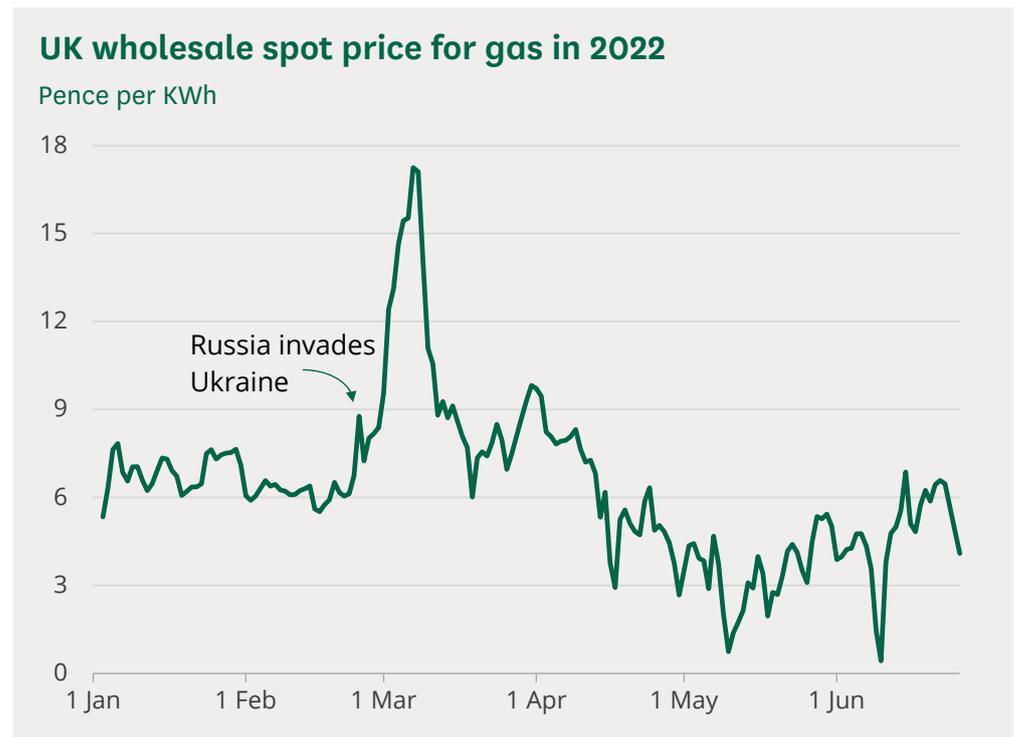
²³ [Gas Market Report Q1 2022](#), IEA

Against today’s low baseline, we estimate that Russia could increase deliveries to Europe by at least one-third, or over 3 billion cubic metres per month. This equates to almost 10% of the European Union’s average monthly gas consumption – and would be the equivalent of a new LNG tanker delivering a full cargo of natural gas to Europe every day. Together with the current high level of LNG inflow, this would provide significant relief to European gas markets.²⁴

The Library briefing [The energy price crunch](#) (14 January 2022) has more information on the causes of energy price rises before the invasion of Ukraine, impacts in the UK, and possible implications for UK energy policy.

Impact of the conflict in Ukraine

Gas prices in Europe increased by 50% on 24 February to around 11 p/kWh²⁵. Prices increased by 30% on Asian markets on the same day.²⁶ The following chart gives recent data on UK spot prices which reflect prices on the wider European market. Early March prices were around ten times their level from a year earlier. They have since fallen back which is due in part to the falling demand for gas for heating at this time of the year and a ‘glut’ of gas in the UK market at the moment. These are spot prices for immediate delivery and forward prices, which feed into the calculations for the price cap, do not show the same downward trend.²⁷



Source: nationalgrid.com [Prevailing View tool](#) (system average price)

²⁴ [Europe and the world need to draw the right lessons from today’s natural gas crisis](#). IEA 13 January 2021

²⁵ \$44 per million therms

²⁶ IEA, [Gas Market and Russian Supply](#) (accessed 4 March 2022)

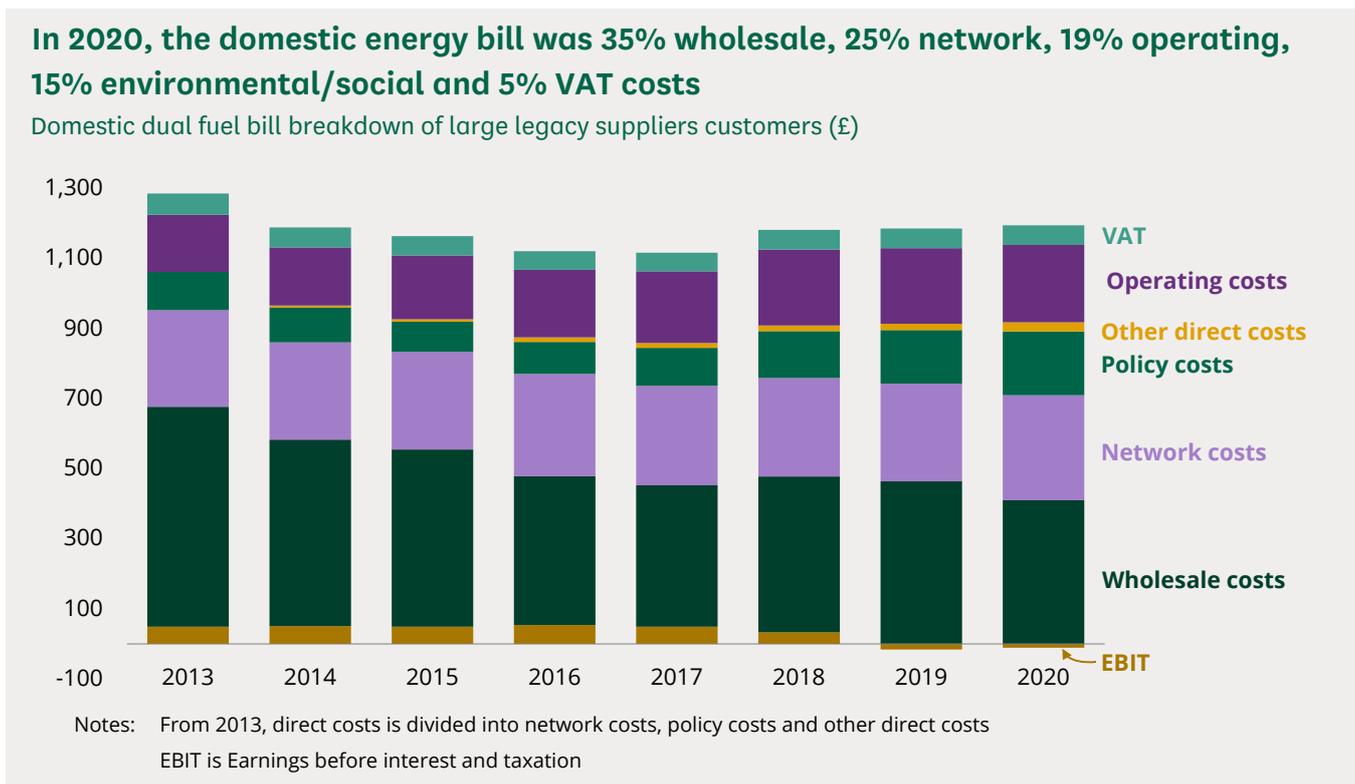
²⁷ Sky News, [The surreal, but also real, problem of Britain's gas glut](#) (17 May 2022)

This increase in prices has led to much speculation that the domestic price cap will have to be increased substantially later in the year. Prices for non-domestic consumers are not capped and increases in these will feed through to higher prices for consumer goods and higher inflation.

4.1 What are the cost components of a typical energy bill?

Ofgem data on components of a bill

Ofgem publishes annual data on the components of a typical dual fuel bill. These are based on their analysis of accounts provided by the large legacy supplies on their costs and revenue for their domestic supply businesses. The costs that make up a bill are wholesale costs, network costs, environmental and social obligation (policy) costs, operating costs (including depreciation and amortisation), supplier pre-tax margin and VAT.²⁸



Source: [Ofgem, Retail Market Indicators, Prices and Profits](#)

The average domestic dual fuel bill have varied since over the years shown, reaching a peak of £1,286 in 2013. In 2020 it increased to £1,184 from £1,171 in 2019. This was mainly driven by increases in network, environmental/social and operating costs.

²⁸ [Ofgem, Retail market indicators, Prices and profits](#)

The domestic energy bill in 2020 was 35% wholesale, 25% network, 19% operating, 15% environmental/social and 5% VAT costs. Suppliers continued to make losses (on their domestic supply businesses) on average in 2020, but losses were less than in 2019. EBIT (Earnings Before Interest and Taxes) was on average -£11 in 2020 compared to -£16 in 2019.

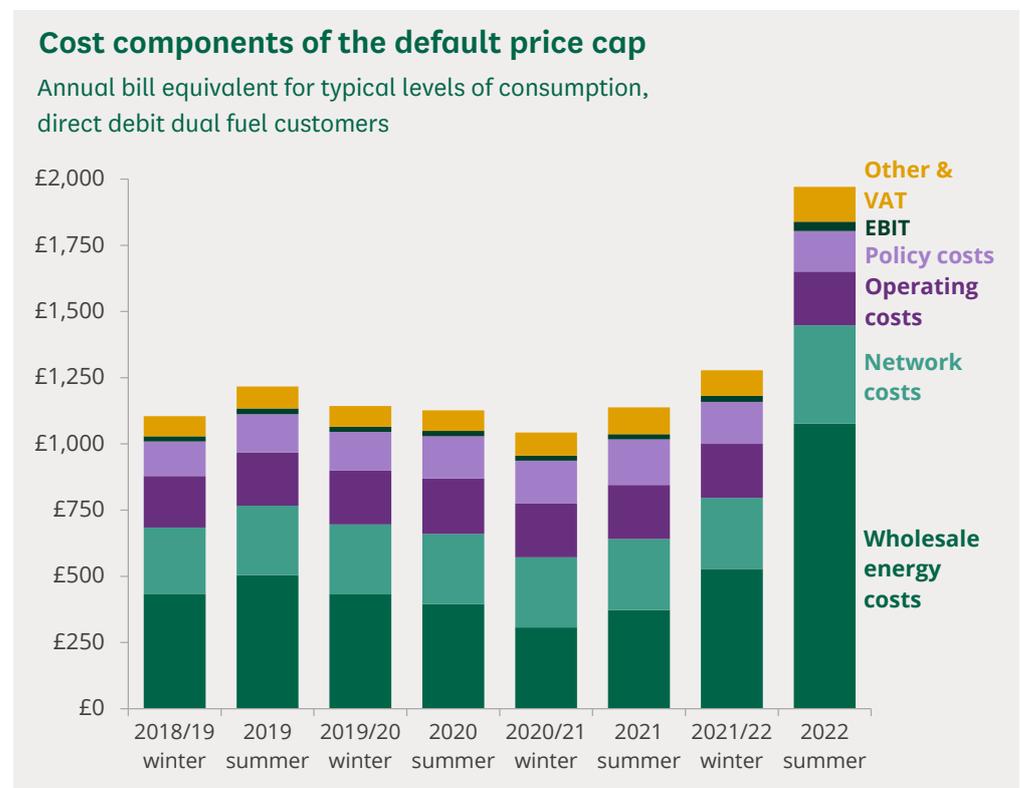
4.2

What makes up the price cap?

Ofgem sets the price cap using its own estimates of the different costs that suppliers will face in the upcoming six month price cap period. These mainly consist of the wholesale cost of gas and electricity, network costs, supplier operating costs and the costs of government policy which are passed on to customers. It adds an element for supplier profit (Earning Before Interest and Taxation or EBIT) of just over 1.9% of revenue. Finally VAT is added at 5%.

The cap sets maximum prices for a unit of energy and standing charges. It does not cap maximum annual bills. These capped unit prices for gas and electricity are multiplied by typical consumption levels and added to standing charges to arrive at the illustrative annual amount.

The following chart shows the cost elements that Ofgem has used to set the default tariff cap since it was introduced. These should be seen as their best estimates of the costs that suppliers will face in the next sixth month period.



Source: [Retail market indicators](#) (Breakdown of the default tariff price cap), Ofgem

The increase in wholesale energy costs is clearly the main cause of the overall 54% increase in the cap in summer 2022 (April to September). More detail on this and some of the other cost elements are given in the following sections.

Wholesale energy costs

Ofgem has said that record gas prices and the knock-on effect on electricity prices were largely responsible for the size of the increase in the summer 2022 price cap.

Daily spot prices on the wholesale market are highly volatile. To protect themselves from variations in prices, energy suppliers can ‘hedge’ their energy purchasing through forward-looking contracts. This means that rather than buying gas or electricity on the spot market for immediate delivery and being exposed to whatever the price may be, suppliers access the market continually, buying some energy up to years in advance. This ‘hedging’ means suppliers are less exposed to market fluctuations.

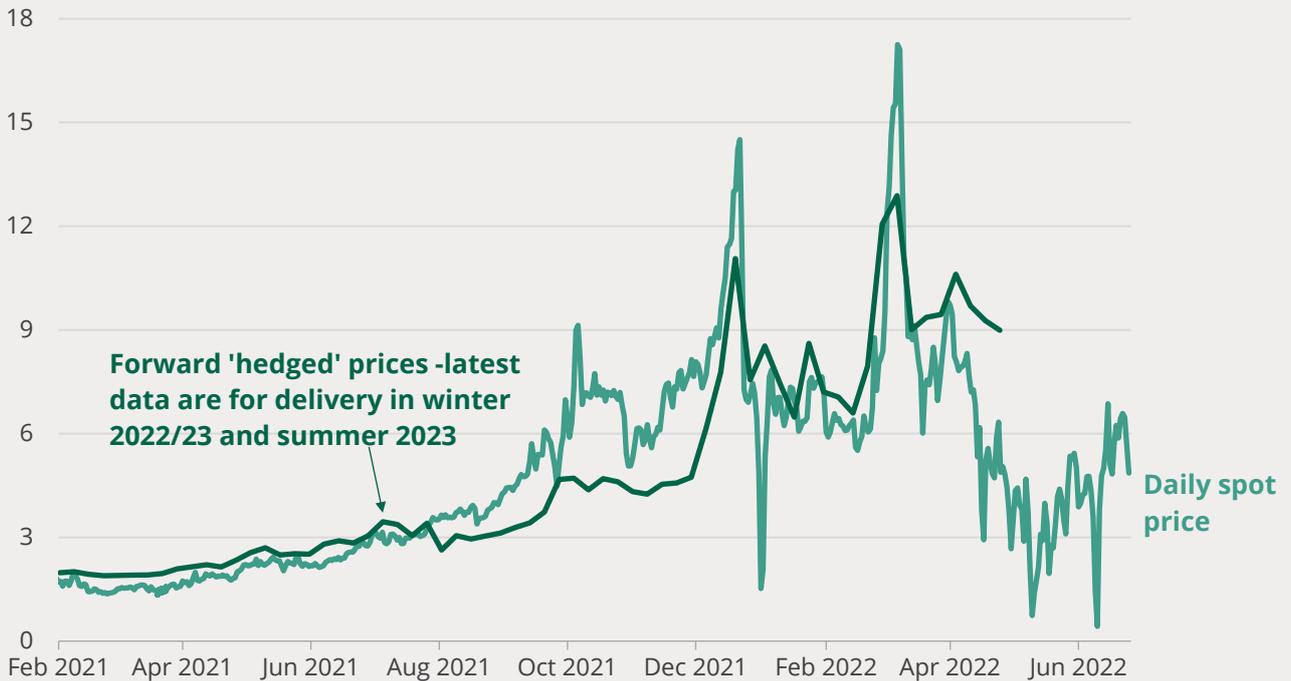
Ofgem analyses forward-looking energy contracts that suppliers purchase for gas and electricity. These feed through into the cap for the following sixth month period. The contracts which Ofgem looked at for the summer 2022 cap were for delivery in summer 2022 and winter 2022/23.²⁹ The latest forward contract data are for delivery in winter 2022/23 and summer 2023. The prices of energy in these contracts are shown in the charts overleaf alongside the daily spot price.³⁰ While the forward prices are much less volatile than spot price, they have still increased to record levels.

²⁹ [Price cap to increase by £693 from April](#), Ofgem, 3 February 2022

³⁰ These are indicative values published by Ofgem. It does not publish the actual values it uses which are said to be ‘proprietary’

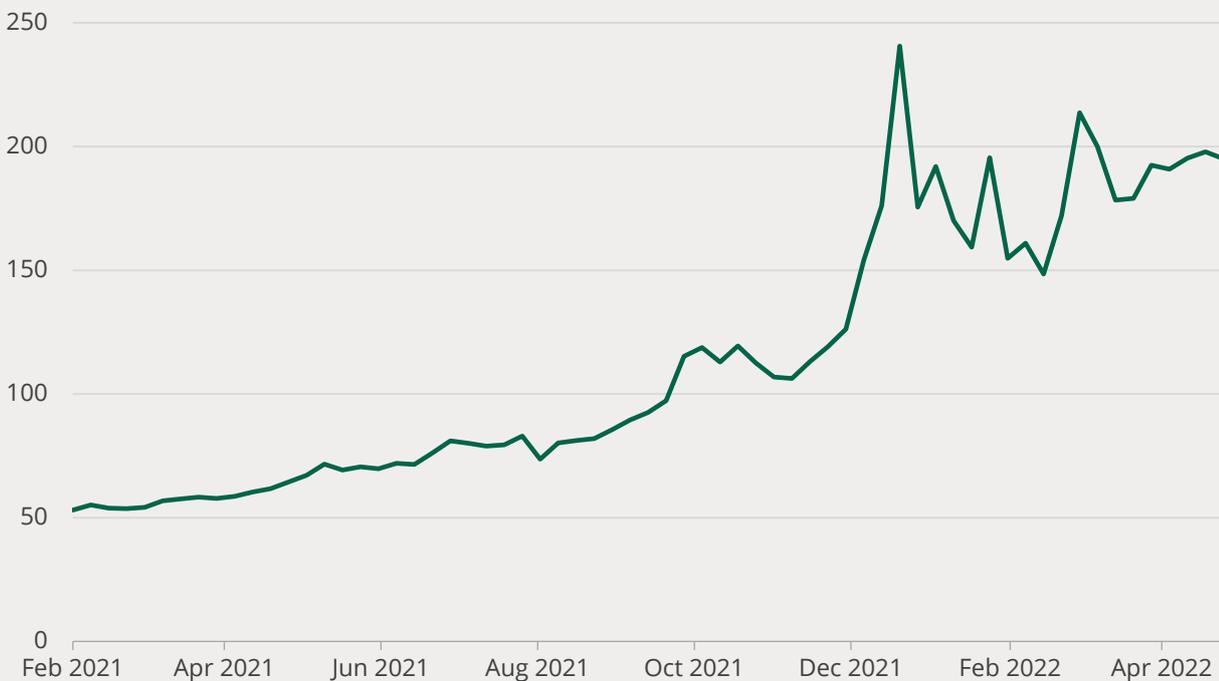
Wholesale gas prices increased rapidly in the second half of 2021 and spring 2022

Pence per KWh



Forward electricity prices in April 2022 more than three times their level from a year earlier

Pence per KWh. Weekly average of forward delivery contracts



Sources: Wholesale Market Indicators, Ofgem; nationalgrid.com Prevailing View tool

Sources: [Wholesale Market Indicators](#) (Wholesale Forward Delivery Contracts Price Trends) Ofgem; nationalgrid.com [Prevailing View tool](#)

The wholesale energy cost element of the cap more than doubled from £528 per ‘typical’ dual fuel customer’ in the winter 2021/22 cap to £1,077 from April 2022.

Network costs

Network costs are intended to cover the costs that suppliers must pay for use of the transmission and distribution networks for gas and electricity. However, the summer 2022 cap also includes an additional charge of £68 per customer to cover ‘Supplier of Last Resort’ levy costs faced by suppliers who have taken on customers from the many smaller suppliers that have gone out of business in recent months. In effect, these are indirect costs of higher wholesale prices that customers have to pay.

Overall network cost estimates increased by almost 40% from £268 in the winter 2021/22 cap calculations to £371 in the summer 2022 cap.³¹

Policy costs

Policy costs, which are additional costs for consumers because of Government policies, are estimated to fall by 4% in the summer 2022 cap, from £159 to £153. These cover the following policies:

- [Renewables Obligation](#): supports large scale renewable generation, paid on electricity bills
- [Feed-in Tariff](#): supports small scale renewable generation, paid on electricity bills
- [Contracts for Difference](#): supports large scale low carbon generation, paid on electricity bills
- [Energy Company Obligation \(ECO\)](#): supports energy efficiency measures in homes, paid on gas and electricity bills
- [Warm Homes Discount](#): provides a discount to vulnerable households, paid on gas and electricity bills
- [Assistance for Areas with High Electricity Distribution Costs](#): paid on electricity bills
- [Green Gas Support Scheme and Green Gas Levy](#): funds the Green Gas Support Scheme, paid on gas bills

The largest element of this is the Renewables Obligation which adds around £75 to the summer 2022 price cap. The ECO scheme is next largest at around £37 per customer. The overall fall in policy costs is due to a fall in the costs of Contracts for Difference. These have fallen from £22 per customer in the winter 2021/22 cap to nearly zero in the summer 2022 cap. This fall is because

³¹ *ibid.*

higher electricity prices mean few if any generators will be due top-up payments under this scheme.^{32, 33}

Policy costs make up around 12% of the summer 2022 price cap for electricity, 3.4% for gas and 7.7% for a dual fuel bill with ‘typical’ consumption levels.³⁴

Supplier profit margins

The policy cap methodology allows for an operating profit or Earnings Before Interest and Taxation (EBIT) for suppliers of 1.94% of revenue. This adds £35 per household to the summer 2022 cap level.

This does not mean that suppliers will earn this rate of return. Their actual profit depends on the **actual** costs they face. Ofgem data on profit margins showed that only one of the large legacy suppliers (British Gas) made a profit on domestic energy supply in either 2019 or 2020.³⁵

However, most supply companies also have electricity generation businesses which have generally performed better and benefited from high wholesale prices, with some particularly high profit margins in 2020.³⁶

The record high power prices in late 2021 and early 2022 suggest that profits on generation will continue to remain high, particularly for renewables and nuclear power.

Ofgem data on the profitability of using fossil fuels for generation show that margins improved rapidly for gas generation towards the end of 2021, even with the high gas prices. Profitability of coal generation increased even faster, while margins for coal had been very low or negative for much of the previous six years. There was a fall in these ‘margins’ at the start of 2022, due to higher fuel prices, but they were well above levels from the first half of 2021³⁷ Whether these patterns continue into 2022 depends on the price of wholesale electricity compared to the gas and coal prices paid by generators.

In March 2022 the IEA set out [A 10-Point Plan to Reduce the European Union’s Reliance on Russian Natural Gas](#). The document says that current prices for electricity could lead to generators making excess profits. Countries could

³² [Default tariff cap level: 1 April 2022 to 30 September 2022](#) (Annex 4 – Policy cost allowance methodology), Ofgem, 3 February 2022

³³ The Library briefing [Support for low carbon power](#) (April 2020) explains payments under the Contracts for Difference scheme.

³⁴ Ofgem states that typical domestic consumption is 2,900kWh of electricity and 12,000kWh of gas for a dual-fuel household, and 4,200kWh of electricity for a household with an Economy 7 tariff. Ofgem press release, [Price cap to increase by £693 from April](#), 3 February 2022; [Decision on revised Typical Domestic Consumption Values for gas and electricity and Economy 7 consumption split](#), Ofgem, 6 January 2020

³⁵ [Retail market indicators](#) (Pre-tax supply margins of the large legacy suppliers), Ofgem

³⁶ [Wholesale market indicators](#) (Large suppliers: Electricity generation profitability by technology type), Ofgem

³⁷ [Wholesale Market Indicators](#) (Spark and dark spreads (GB)), Ofgem

consider taxing these windfall profits and redistributing the proceeds to consumers to help offset price increases:

Increases in electricity costs are unavoidable to a certain extent when gas (and CO₂) prices are high. But current wholesale markets create the potential for profits for many electricity generators and their parent companies that are well in excess of the costs related to operations or capital recovery. Current market conditions could lead to excess profits of up to EUR 200 billion in the EU for gas, coal, nuclear, hydropower and other renewables in 2022.

Temporary tax measures to raise rates on electricity companies' windfall profits could be considered. These tax receipts should then be redistributed to electricity consumers to partially offset higher energy bills. Measures to tax windfall profits have already been adopted in Italy and Romania in 2022.³⁸

The windfall tax on the UK oil and gas sector, the new 'Energy Profits Levy', does not cover electricity generators, but the Government has said some sectors have seen 'extraordinary profits' and it would look into the scale of these and possible action:³⁹

The levy does not apply to the electricity generation sector. However, certain parts of it have also seen extraordinary profits partly due to record gas prices. As set out in the Energy Security Strategy, the government is consulting with the power generation sector and investors to drive forward energy market reforms and ensure that the price paid for electricity is more reflective of the costs of production. Those reforms will take time to implement. In the meantime, the government will urgently evaluate the scale of these extraordinary profits and the appropriate steps to take.

³⁸ IEA (2022), [A 10-Point Plan to Reduce the European Union's Reliance on Russian Natural Gas](#), IEA, Paris

³⁹ HM Treasury, [Energy Profits Levy Factsheet - 26 May 2022](#)

5 How much do people actually spend on energy?

The earlier price data converts average unit costs of energy and daily standard charges to equivalent annual bills using 'typical' levels of consumption. These assumptions remain the same for the whole period in question so trends reflect changes in prices and are not affected by changes in consumption.

The official statistics produced by BEIS assume 13,600 kWh of gas and 3,600 kWh of electricity⁴⁰ is 'typical'. These estimates have changed over time, based on a review of the available evidence, most recently in March 2020.

Ofgem uses lower annual consumption levels for its definition of 'typical': 2,900 kWh for electricity and 12,000 kWh for gas. These figures were last revised in 2019 and are based on median consumption values.⁴¹ They use this because it is more representative of what is typical. A mean average figure would be increased by the small numbers of consumers who use very large amounts of energy. The median is the value that half of consumers use less than and half of customers use more than.

The choice of 'typical' consumption levels does not have a major impact on relative trends in bills, but will affect their absolute level and data on changes expressed in pounds per year.

BEIS publishes data on average bills based on what the actual mean average consumption was in each year. This is affected by unit prices, but all changes in consumption levels which is affected by a range of factors including the temperature, energy efficiency, household/dwelling size etc. Average (mean) gas consumption has fallen from around 18,000 kWh in the early 2000s to 12-13,000 kWh in each year from 2014 to 2020. Average (mean) electricity consumption increased from just below 4,000 kWh in the early 2000s to around 4,300 kWh at the end of the decade. Since then it has gradually fallen and was around 3,400 kWh in recent years.⁴²

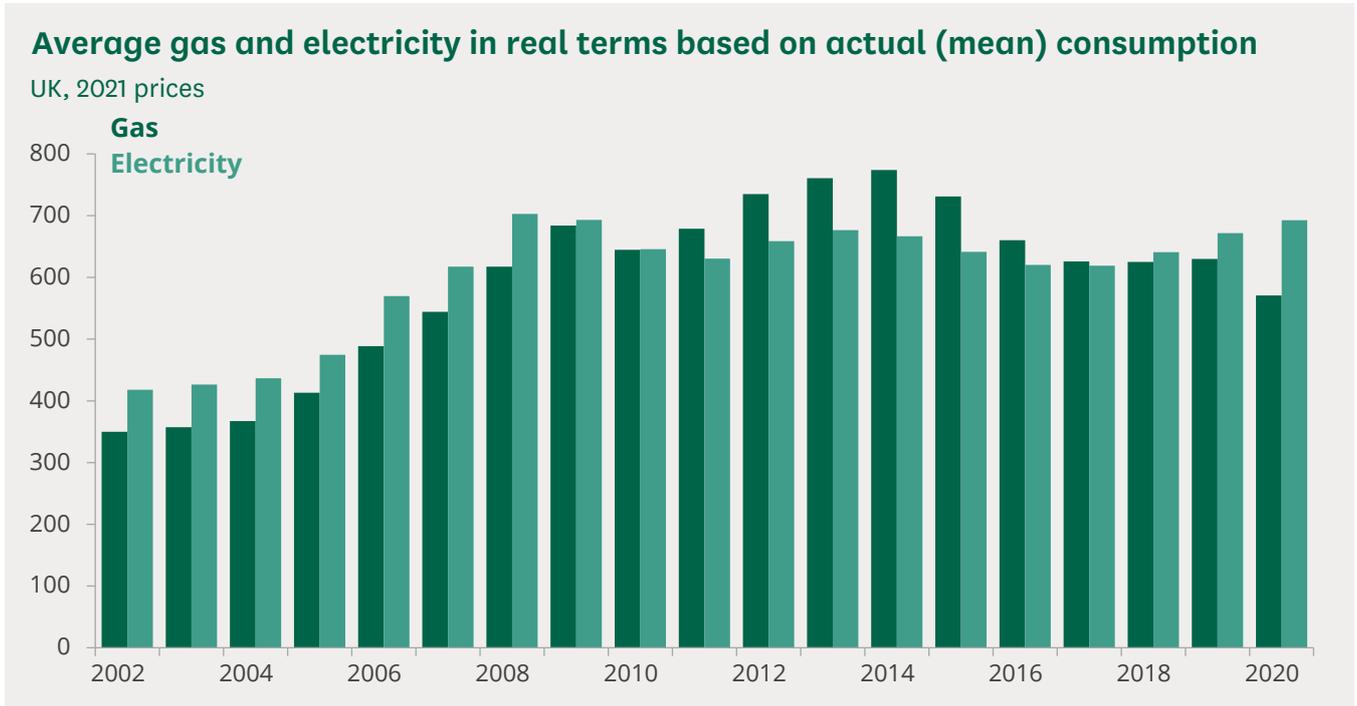
The following chart shows real levels average bills based on actual average consumption. This gives a longer time series than earlier data on average bills. Average gas bills on this definition more than doubled in real terms between 2002 and 2014. Between 2014 and 2020 they fell by 26% or around £200 in 2021 prices. There was little change in average consumption during this period. Average electricity bills on this measure increased by almost 70%

⁴⁰ Standard electricity use, not Economy 7

⁴¹ Ofgem, [Review of Typical Domestic Consumption Values 2019](#)

⁴² BEIS, [Annual domestic energy bills](#) (Tables 2.2.5 and 2.3.5)

in real terms between 2002 and 2008. Since then they have varied in the £600-700 range (in 2021 prices). Unit prices of electricity increased, but this was offset by lower levels of consumption per household.

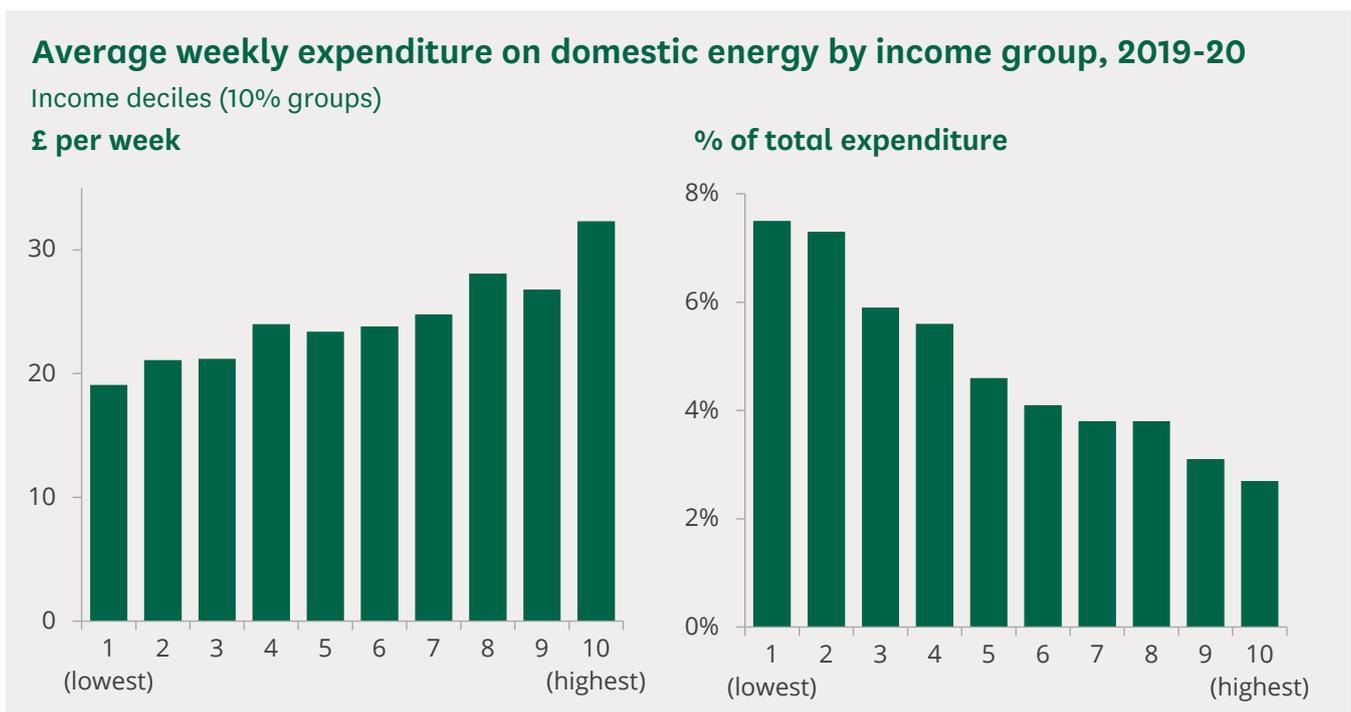


Source: BEIS, [Annual domestic energy bills](#) (Tables 2.2.5 and 2.3.5)

5.1

How does spending on energy vary by income?

The charts below show that spending on energy⁴³ increases with income, from just under £20 per week among the 10% of households with the lowest incomes (decile 1) to £32 per week among the 10% with the highest incomes (decile 10). However, **spending on energy varies less by income than any other spending category**.⁴⁴ This is reflected in the right hand chart where spending on energy is shown as a share of total expenditure. It was much higher in lower income groups; 7.5% in decile 1 and 7.3% in decile 2 compared to just 2.7% in decile 10.



Source: ONS, [Family spending workbook 1 \(Tables 3.1 & 3.2\)](#)

Spending on energy to heat and power a home is, to a large extent, not discretionary. There is a limit to the amount a household can do to cut their costs while adequately heating their home, without substantial improvements in the energy efficiency of their property. Recent sharp increases in energy prices mean that all households will need to spend more on energy. **This will have a disproportionate impact on lower income households as any given increase in prices will take up a greater share of their (smaller) family budgets.** These households will also have less scope to shift patterns of spending from ‘discretionary’ items to essentials like heating.

There is increasing concern that some households will be forced by rising prices to simply stop heating their homes at times or to not keep them warm enough, with negative impacts on their health and wellbeing. These are some

⁴³ Electricity, gas and other fuels

⁴⁴ ONS, [The rising cost of living and its impact on individuals in Great Britain: November 2021 to March 2022](#) (April 2022)

of the worst effects of fuel poverty. There is evidence that customers on prepayment meters (generally poorer and repaying a debt to their supplier) were already self-disconnecting or self-rationing in 2019. [Ofgem](#) defines self-disconnection and self-rationing as:

Self-disconnection happens when a consumer with a prepayment meter does not have enough money to top-up their meter and their meter cuts out, or when they do not realise that credit on the meter is running out. Closely associated with self-disconnection is self-rationing. This is when a customer deliberately limits their energy use to spend money in other essential areas. Self-rationing can also refer to restricting spending in other essential areas in order to pay for energy.

Ofgem said the following about levels of self-disconnection and self-rationing in their 2020 [decision paper](#) on measures to improve outcomes for these customers:

There are a reported 4.3 million electricity and 3.4 million gas PPM [prepayment meter] consumers. Our data shows that 1 in 7 customers self-disconnected during 2019, and more recent data from Citizens Advice shows these numbers could be higher. Evidence shows that around half of those who are self-disconnecting appear to experience a negative impact. This could be a physical impact such as living in a cold home and/or emotional impact which includes financial distress. Some groups will generally be more affected Existing support and possible new measures

The briefing paper [Fuel Poverty in the UK](#) looks at how this varies across the UK, how it has changed over time and measures to reduce it.

How might energy expenditure of the poorest households be affected by price rises in 2021 and 2022?

The latest data on family spending patterns are for 2019-20 and data which includes the April 2022 increase in the price cap is not expected to be published until next year. The 2019-20 data can be used to give an indication of the impact of price rises to show how much more households would have to pay in 2022-23 in order to use the same amount of energy as they did in 2019-20. They may not need to spend as much in 2022-23 for positive reasons such as improvements in energy efficiency or if the winter is milder. They may also not be able to afford these price increases so cut consumption or self-ration for necessity.

Data on energy price rises between 2019-20 and March 2022⁴⁵, plus the overall 54% increase in the price cap in April 2022 and Ofgem's forecast of increases in October 2022⁴⁶ suggest that **energy prices in 2022-23 could be around 130% higher than in 2019-20.**⁴⁷ This is still considerable uncertainty

⁴⁵ As measured by the CPI index for electricity, gas and other fuels ([series D7CH](#)).

⁴⁶ The Guardian, [Energy bills likely to rise by £800 in October](#), says Ofgem chief (24 May 2022)

⁴⁷ Values for the summer 2022 and winter 2022/23 price caps are weighted by Ofgem assumptions about relative use of gas and electricity in summer and winter from [Default tariff cap level: 1 April](#)

about the size of the increase in October 2022 (see [section 7](#) for more detail). An increase of this size would mean that **households in the bottom two income deciles would need to spend £1,300 to £1,400 more on energy in 2022-23 to consume the same amount as they did in 2019-20**. This is before the additional help announced by the Government. It also does not take account of the impact of changes to how the price cap operates. However, Cornwall Insight, have estimated that the three-month cap from October 2022 could be £2,790, rising to £2,818 in January 2023.⁴⁸ These are very close to the £2,800 (over sixth months) used for these calculations.

These households may have seen their incomes increase since 2019-20, but they would also face pressure on their budgets from rising food prices and other increases to the costs of living.

A [recent article from the ONS](#) looks at the impact of rising costs of living in the period to March 2022. It is based on survey evidence from before the latest increase in the price cap, but shows that overall families were already finding it more difficult to pay their usual household bills than it was a year earlier. Those from more deprived areas had seen the largest increases in those finding it difficult to pay, substantial numbers were behind with their energy bills, had borrowed more and were unable to afford unexpected household expenses.⁴⁹

[2022 to 30 September 2022](#) (Supplementary model - default tariff cap level v1.10). In effect a weighted average of the two different price caps for the financial year.

⁴⁸ Cornwall Insight, [Cornwall Insight's Price Cap predictions jump after Ofgem release new guidance](#) (26 May 2022)

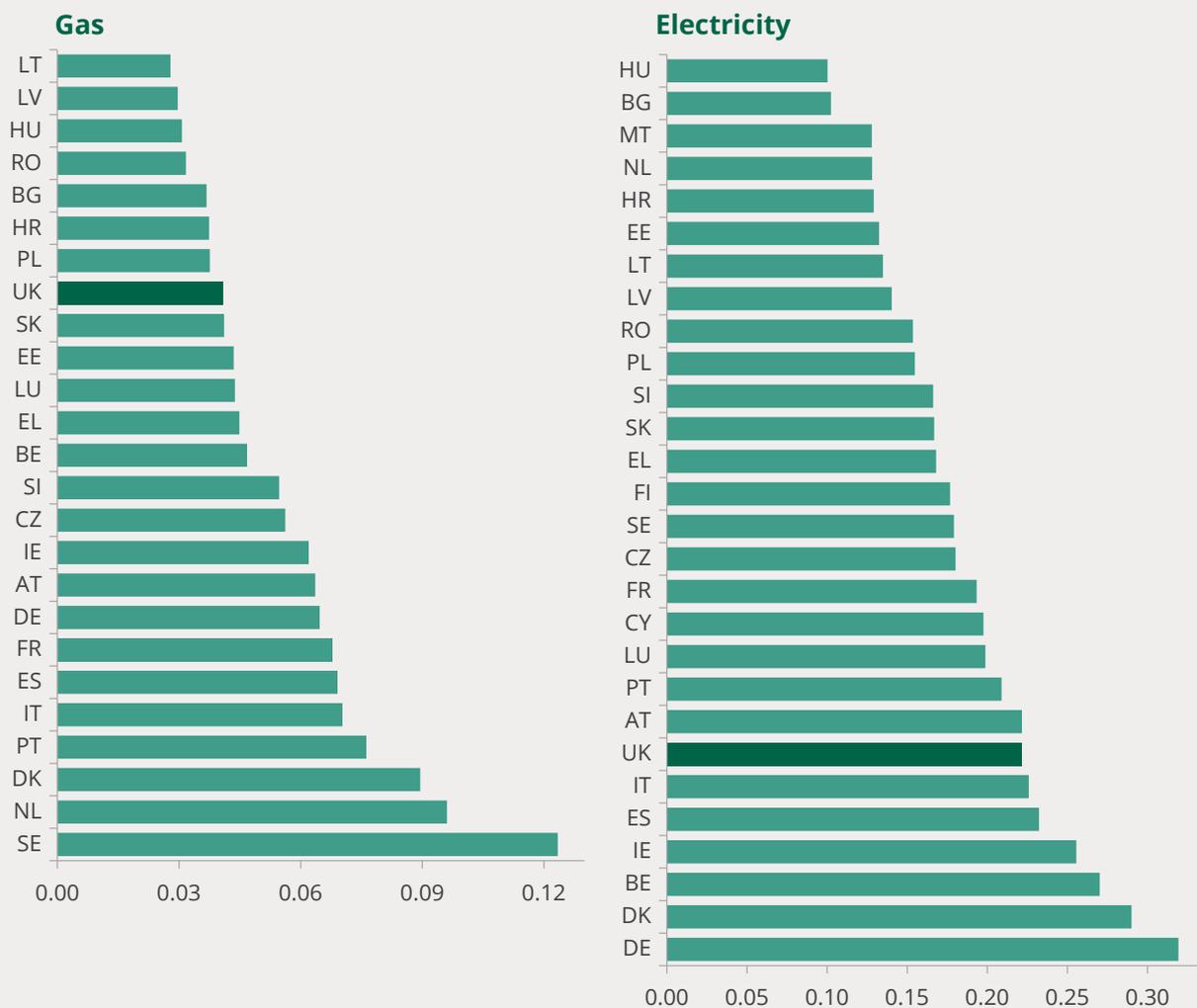
⁴⁹ ONS, [The rising cost of living and its impact on individuals in Great Britain: November 2021 to March 2022](#) (April 2022)

6 How do gas and electricity prices vary across Europe?

Eurostat, the statistical office of the EU, publishes data on gas and electricity prices across Europe. However, as the Brexit agreement did not include any specific arrangement on statistical cooperation the UK is no longer included in their data from 2021. The [latest Eurostat data](#) is for the second half of 2021. The Department for Business, Energy & Industrial Strategy has not yet published a UK equivalent for this period and is not expected to do so until June 2022. Therefore, the figures below look at data from the first half of 2021 and are not affected by rising wholesale prices from summer 2021.

In the first half of 2021 UK gas prices for domestic consumers were below those in most EU countries, electricity prices were above those in most of the EU

€/kWh for medium users including taxes and levies



Note: There are no gas price data for Finland, Malta or Cyprus

Sources: Eurostat, [Electricity price statistics](#) & [Natural gas price statistics](#)

UK domestic gas prices in the first half of 2021 were below those in most of the EU. Only newer EU members had lower prices. UK electricity prices were higher than in most of the EU. UK data for the second half of 2021 is due to be published at the end of May 2022.

This data includes taxes (such as VAT) and levies on prices. There is a wide range of different levies on energy costs across the EU and UK. Some countries use these to pay for energy-related policies. Others fund these policies from general taxation. This means that consumers in some countries may face lower energy prices, but ‘pay’ for this through higher taxes and vice versa.

Similarly, support for households may be delivered through controls on prices or through cash transfers (such as the Warm Home Discount) which do not show up in price statistics. Comparisons based on headline prices alone therefore do not take in the full potential range of such costs.

In the first half of 2021 of taxes and levies made up 39% of household electricity and 36% of household gas prices on average across the EU.⁵⁰ Rates varies substantially between different members. As a rough comparison policy costs and VAT made up 20% of the Summer 2021 dual fuel energy price cap in Great Britain.⁵¹

The rapid increase in energy prices from summer 2021 has led many EU states to introduce policies to protect consumers. The following articles give some examples of these:

- [Europe’s Governments Face a Reckoning as Energy Prices Surge](#) (Bloomberg 16 January 2022)
- [As UK households feel pressure, how are other European countries tackling energy crisis?](#) (Guardian, 31 January 2022)
- [Energy crisis: How countries are dealing with rising prices](#) (BBC, 31 January 2022)
- [Factbox: Europe's efforts to shield households from soaring energy costs](#) (Reuters, 3 February 2022)
- [Questions and Answers on REPowerEU: Joint European action for more affordable, secure and sustainable energy](#) (European Commission 8 March 2022)
- [National policies to shield consumers from rising energy prices](#) (Bruegal datasets 13 June 2022)

⁵⁰ Eurostat, [Electricity price statistics](#) and [Natural gas price statistics](#)

⁵¹ Ofgem, [Retail market indicators](#) (Breakdown of the default tariff price cap)

7 How might energy prices change in the future?

Ofgem published its decision on the level of the summer price cap on 3 February 2022. Energy prices have continued to rise since then, particularly after Russia invaded Ukraine. This has led to speculation about the possible increase in the price cap in October 2022.

The chief Executive of Ofgem said on 24 May that he expected the price cap to increase to around **£2,800** in October 2022, an increase of around **40%**.⁵²

Cornwall Insight's latest forecast for the price cap was published on 21 June. These take account of the proposed quarterly caps from October 2022 and new guidance from Ofgem on how they might operate. They forecast that the three-month cap from October 2022 could be **£2,981**, rising to **£3,003** in January 2023, before falling to around £2,760 in April 2023 and £2,720 in July 2023.⁵³ These forecasts were around £200 higher than those it made a month earlier.⁵⁴

The Office for Budget Responsibility said in March that, based on current data, their forecasts assume the price cap will rise by **40%** to around £2,800. However, they added that market expectations for wholesale prices further into the future imply a cut of around 30% in April 2023 and a further 5% in October 2023.⁵⁵

In March 2022 the Bank of England's Monetary Policy Committee estimated the possible increase in the price cap in October 2022 at around **35%**.⁵⁶ Other commentators have suggested that it could rise by up to **50%** to around £3,000 a year.⁵⁷

In March some energy companies were reportedly quoting fixed price tariffs of £3,000-3,500.⁵⁸ The average price of the cheapest ten fixed price deals in

⁵² The Guardian, [Energy bills likely to rise by £800 in October](#), says Ofgem chief (24 May 2022)

⁵³ Cornwall Insight, [Cornwall Insight comments on its January Default Tariff Cap forecast rising to £3,000 for a typical user](#) (21 June 2022)

⁵⁴ Cornwall Insight, [Cornwall Insight's Price Cap predictions jump after Ofgem release new guidance](#) (24 May 2022)

⁵⁵ OBR, [Economic and fiscal outlook – March 2022](#) (Section 2.24)

⁵⁶ Bank of England, [Monetary Policy Summary and minutes of the Monetary Policy Committee meeting](#) (17 March 2022)

⁵⁷ Energy Live News, [UK price cap predicted to spike to £3k in October after Russian invasion](#) (25 February 2022); The Guardian, [Huge UK energy bills would cause some to 'starve or freeze', Martin Lewis warns](#) (12 March 2022)

⁵⁸ The Guardian, [Energy bills: British consumers quoted up to £3,500 a year for fixed rates](#) (5 March 2022)

April was said to be around £3,700.⁵⁹ Fixed-price contracts are not covered by the price cap.

Ofgem does not publish the actual data on forward-looking price contracts it uses to set the price cap. These are 'proprietary' so not available for publication.⁶⁰ Ofgem will analyse wholesale prices from February to July 2022 when making its decision on the winter 2022/23 price cap. These are forward-looking contracts agreed by suppliers for energy delivered between winter 2022 and summer 2023.

Ofgem publishes regular data it obtains from brokers on the price for forward looking contracts. These give an indication of the costs it will use for the price cap. The average price for these contracts in the six months to January 2022 was 4.3 p/kWh for gas and 12.7 p/kWh for electricity. The average for February to April 2022 (the first three months of the sixth month period Ofgem use to calculate the level of the next price cap) was 7.7 p/kWh for gas and 18.3 p/kWh for electricity. This will, over time, give a guide to the level the price cap might change to in October 2022.

⁵⁹ Cornwall Insight, [Cheapest fixed tariff energy deals £1,700 more than the Price Cap](#) (24 May 2022)

⁶⁰ Chart of this data can be seen in the press release [Price cap to increase by £693 from April](#) (3 February 2022).

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