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## Energy costs in Wales

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### Summary

The cost of energy has risen rapidly since the second half of 2021 onwards. The impact of fluctuating energy prices affects people, business and parts of the country in different ways and to varying extents depending on socio-economic circumstances.

This briefing looks at the impacts of rising energy prices in Wales ahead of a Westminster Hall debate scheduled for Tuesday 11 October 2022, from 4.30 - 6pm. The debate will be led by Anna McMorrin MP

## 1

## Domestic energy costs

The cost of energy has risen rapidly since the second half of 2021. Energy bills comprise a variety of costs including wholesale, network, social and environmental, and other direct costs, as well as VAT and supplier profits. These costs can all fluctuate, meaning the causes of rises and falls in energy bills are complex.

The impact of fluctuating energy prices affects people, business and parts of the country in different ways and to varying extents depending on socio-economic circumstances.

In 2019, the default tariff cap (also known as the energy price cap) was introduced to set an absolute, maximum price per unit of electricity and gas for customers on domestic default tariffs in Great Britain. Despite the cap, from August 2021 to August 2022, domestic gas prices increased by 96% and domestic electricity prices by 54%. On 26 August 2022 the Government announced that [the cap would increase by a further 80% to £3,549 \(for an average dual-fuel household\) from 1 October 2022.](#)

[On 8 September the Prime Minister announced a new Energy Price Guarantee](#) would be introduced on 1 October, replacing the energy price cap. The Guarantee would ensure that a 'typical' UK household would pay no more than £2,500 on their annual energy bill, for the next two years. It applies to households in Great Britain, with similar support being made available to households in Northern Ireland.

### Further support for households

In April 2022, the Government published details of [the Energy Bills Support Scheme \(EBBS\)](#). Under the EBBS, all households in Great Britain with a domestic electricity connection would be eligible for a £400 non-repayable discount to help with the cost of energy bills over winter 2022 to 2023. The EBBS replaced earlier Government plans to provide households with a £200 discount on their bill, to be repaid over the coming years, via an Energy Bills Rebate. For further information about the schemes, see a Library briefing [Energy Bills Support Scheme: Government policy and FAQs](#). Government guidance, [Energy bills support factsheet](#), also advises on details and eligibility for the EBBS.

In July 2022, the Welsh Government announced the [Welsh Government Fuel Support Scheme](#) in a written statement which set out the investment and support packages that were available to help customers with their energy bills:

Eligible households can claim a one-off £200 payment from their local authority to be used towards paying fuel bills. This payment will be available to all eligible energy customers regardless of whether they pay for their fuel

on a pre-payment meter, by direct debit or by paying a bill quarterly and regardless of whether they are using on or off-grid fuel.<sup>1</sup>

The written statement also highlighted the £150 cost of living payment:

Since November we have invested more than £380 million to mitigate the impact of the cost of living crisis for disadvantaged households.

It is helping to fund a £150 cost-of-living payment for all households in properties in council tax bands A to D and to all households, which receive support from the Council Tax Reduction Scheme in all council tax bands. To date, £112m has reached the pockets of the eligible households.<sup>2</sup>

The Commons Library briefings on the [rising cost of living in the UK](#), [energy bills and the price cap](#) and [domestic energy prices](#) provide further information on how and why prices have changed, and information about support being provided by the Government.

## 2 Fuel poverty

In May 2022, the Equality and Social Justice (ESJ) Committee of the Welsh Parliament published [Fuel poverty and the Warm Homes Programme](#) (PDF). This report outlined the conclusions and recommendations of the Committee's inquiry into fuel poverty and highlighted how rising inflation and the energy cap increase were expected to impact Wales:

These changes to the energy market are expected to hit the poorest households in Wales harder than any other UK nation or region, according to estimates by the National Institute of Economic and Social Research. Their figures suggest that the poorest households in Wales spend over a quarter – at 26.2 per cent – of their income on energy and food.<sup>3</sup>

The inquiry also estimated that 45 per cent of households in Wales would be in fuel poverty in 2022. The report notes that “the Welsh Government’s [Tackling Fuel Poverty Plan](#) defines households needing to pay more than 10 per cent of their income on heating their home as ‘in fuel poverty’; households needing to pay more than 20 per cent as living in ‘severe’ fuel poverty; and households needing to pay more than 8 per cent but less than 10 per cent as ‘at risk of fuel poverty’”.<sup>4</sup>

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<sup>1</sup> Welsh Government, [Written Statement: Welsh Government Fuel Support Scheme 2022/23](#), 20 July 2022

<sup>2</sup> Welsh Government, [Written Statement: Welsh Government Fuel Support Scheme 2022/23](#), 20 July 2022

<sup>3</sup> Equality and Social Justice Committee, [Fuel poverty and the Warm Homes Programme](#) (PDF), May 2022

<sup>4</sup> Welsh Government, [Tackling fuel poverty 2021 to 2035](#), 2 March 2021

On 21 September 2022 a [debate on the ESJ Committee's report](#) into fuel poverty took place in the Senedd.

### 3 Levels of employment

Welsh households may experience more difficulties in coping with increased energy costs due to lower levels of employment and income.

In the year ending June 2022, the working age employment rate for Wales was 72.7%, lower than the UK average of 75.5%. Average gross full-time earnings in Wales were £570.60 per week in 2021, 93% of the average for the UK (£610.70). See the [Nomis Labour Market profile for Wales](#) for details.

The Library Briefing paper, [Poverty in the UK](#), also indicates that a higher proportion of people in Wales experience relatively low incomes compared with the UK average.

### 4 Energy efficiency: housing

[Research by the Office of National Statistics](#), based on Energy Performance Certificates (EPCs), shows energy costs and carbon emissions in existing dwellings are double those of new dwellings. According to [research from BRE Trust](#) (PDF), Wales has the oldest housing stock in the UK with over a quarter of houses being 100 years old or more.

Older buildings are generally less airtight than more modern buildings meaning heat escapes more easily. They also tend to take up moisture more easily, leading to dampness. Excess moisture can significantly affect the levels of heat loss and energy efficiency of old homes. The Energy Savings Trust reports “homes lose around a third of the heat through their walls, and wet masonry accelerates this heat loss, potentially leading to higher energy bills due to increased heating requirements”.<sup>5</sup>

#### Energy efficiency by type of building

The [latest data on energy efficiency ratings in Wales](#) is for 2017-18 when 50% of social housing in Wales was rated in the highest efficiency bands of C or better, much higher than rates in the private rented sector (25%) and owner occupied dwellings (24%). Newer buildings were much more likely to be rated band C or better. 59% of dwellings built after 1980 were in these bands compared to 31% of those built between 1965-1980 and lower rates

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<sup>5</sup> Energy Savings Trust, [Damp walls? Energy Saving Trust has verified products that can help](#), 4 July 2019

for each group of older dwellings down to 7% of dwellings built before 1919. Dwellings in rural areas were generally less energy efficient than those in urban areas, in part due their age. 21% of rural dwellings in 2017-18 were in band C or higher compared to 32% of urban dwellings.

The Office for National Statistics has produced [local data maps of average energy efficiency ratings across England and Wales](#). These are based on data from Energy Performance Certificates (EPCs) lodged between 2007 and 2021. EPCs have to be produced for homes that are newly built, marketed for sale/rent or applying for certain energy efficiency schemes. Therefore, this data does not give a fully representative or up to date picture of the energy efficiency of the entire building stock.

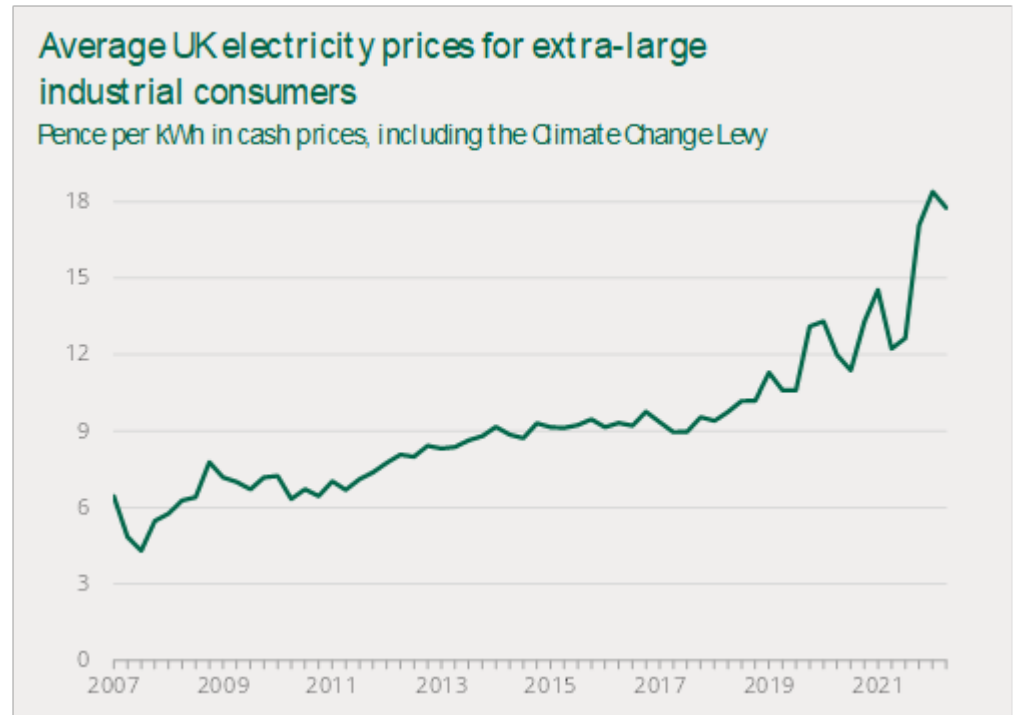
## 5 Businesses and industry

According to the Office for National Statistics (ONS) [Business Insights and Conditions \(BICS\) survey](#), inflation of goods and services prices and energy prices were the major concerns businesses in Wales were expecting to face in October 2022 – 33% of surveyed businesses in Wales reported inflation as their main concern and 28% reported energy prices as their main concern. These figures are similar UK-wide (31% and 25% of businesses reported inflation and energy prices as their main concern, respectively).<sup>1</sup>

Almost half of surveyed businesses in Wales (47%) said that their business had been affected by recent increases in energy prices, either because production or suppliers were affected, or both. This was slightly higher than the figures reported by businesses in the UK as a whole (44%).<sup>2</sup>

Rising energy prices are particularly concerning for certain industries that are high users of energy. Wales has a relatively large proportion of steel manufacturing compared to other parts of the UK, for which energy costs, particularly in relation to international competitors, have long been a concern – our [briefing on the steel industry](#) contains background information.

The latest official data on business energy costs from the Department for Business, Energy and Industrial Strategy (BEIS) are for the second quarter of 2022. The following chart shows electricity prices for the largest consumers, such as steel producers.



Source: BEIS, [Gas and electricity prices in the non-domestic sector](#)

Prices in the second quarter of 2022 were 40% higher than in the same period of 2021 and nearly 50% higher than in the second quarter of 2020. Trends in wholesale prices suggest that there will have been further substantial price increases since then.

[According to UK Steel](#) the average prices paid by steel producers in the UK for electricity in 2021-22 were around £95 per MWh compared to around £63 per MWh in France and £59 per MWh in Germany.

Energy consultants [Cornwall Insight said in early August](#) that the increase in prices in October (the time when companies traditionally sign new fixed term price contracts for energy) could mean firms renewing an annual contract for energy costing twice as much as it did in 2021-22, which was twice the level in 2020-21. They said that a company which negotiated a two-year fixed-term contract in Summer 2020 could potentially face a fivefold increase in prices in October 2022. They added:

While the business energy markets have so far managed to cope with the price increases already experienced, it is feared that October's increase in bills coupled with the other economic concerns being seen in the market, could tip businesses over the edge. This is particularly true for certain firms whose profitability is most exposed to energy cost increases, including hospitality, leisure, retail and many in the industrial sector. Some of these sectors are concentrated in regions that have been positioned in the UK Government's

Levelling up agenda, which could damage any efforts to boost productivity and raise living standards in these areas.<sup>6</sup>

Make UK, trade body for UK manufacturers, reported in early September that rising energy costs were “[causing major disruption for half of companies](#)” and that [nearly 60% of their members](#) surveyed said that energy costs were now “business threatening”.

It isn't just manufacturing industries that have high energy costs. The ONS in early September published an analysis of the [energy intensity of different industries](#) – looking at which industries spent the largest proportion of their total input costs on energy in 2019. Transport and energy-generation industries were the highest users of energy (spending 20-25% of their costs on energy), followed by agriculture and food & accommodation industries (spending around 7.5% of their costs on energy). Micro businesses (0 to 9 employees) were more likely than larger businesses to have a high energy intensity (more than 20% of total purchases being spent on energy in 2019).

## Government support

In August 2022 the Government opened a consultation on [further support for energy intensive industries electricity costs](#), proposing to increase the level of exemption for certain environmental and policy costs to 100% (up from 85%). This follows an earlier announcement in April 2022 that [the Energy Intensive Compensation Scheme would be extended](#) for a further three years. This scheme applies only to [certain manufacturing industries](#) that are high users of energy.

On 21 September, the government announced an [Energy Bill Relief Scheme](#), providing a discount on wholesale gas and electricity prices for non-domestic customers. It will apply to fixed contracts agreed on or after 1 April 2022, and deemed, variable and flexible tariffs and contracts. It will apply to energy usage from 1 October 2022 to 31 March 2023, described as an ‘initial’ period. [Make UK](#) said that “industry will warmly welcome the timely announcement” of the scheme.

The Commons Library debate pack on [Energy intensive industries](#) provides background information on industrial energy prices. It includes information on Government support for the sector on electricity costs and decarbonisation.

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<sup>6</sup> Cornwall Insights, [Businesses could see energy bills increase fivefold in October](#), 3 August 2022



## 6 Parliamentary material

### 6.1 Parliamentary questions

#### Written questions

##### Welfare State: Wales

To ask the Secretary of State for Work and Pensions, what assessment she has made of the potential merits of the devolution of welfare powers to Wales to permit the Welsh Government to provide additional support for households amid the cost of living crisis.

27 Sep 2022 | Written questions | Answered | House of Commons | 53462

**Asked by:** Saville Roberts, Liz | **Answered by:** Alex Burghart  
| **Department:** Department for Work and Pensions

The Wales Act 2017 sets a reserved powers model, making clear that social security, pensions and child maintenance remain reserved to UK Parliament. This position is unchanged since devolution began. The UK Government does not intend to devolve reserved social security powers to the Welsh Government. It has, however, used them to make provision for the £650 Cost of Living Payment (paid in 2 lump sums of £326 and £324) for around 8 million low-income households on means-tested benefits; the one-off disability Cost of Living Payment of £150 currently being paid to 6 million eligible people; and the extra one-off £300 Winter Fuel Payment this year to be paid to over 8 million pensioner households across the UK.

The UK Government has taken further decisive action to support people with their energy bills through the new “Energy Price Guarantee”, which will mean a typical UK household will now pay up to an average £2,500 a year on their energy bill for the next two years from 1 October. This will save the average household in Great Britain at least £1,000 a year based on current energy prices from October. This is in addition to the over £37bn of cost of living support announced earlier this year which includes the £400 non-repayable discount to eligible households provided through the Energy Bills Support Scheme and the cost of living payments. It also includes an additional £500 million from October to help households across the UK with the cost of essentials. In England, £421 million is being provided to extend the Household Support Fund, a discretionary scheme run by Upper Tier Local Authorities, from October 2022 – March 2023. The Welsh Government has been allocated its share of this funding through the Barnett Formula.

### Energy: Wales

To ask the Secretary of State for Wales, what assessment his Department has made of the differential in domestic energy costs between Wales and the rest of the UK.

08 Sep 2022 | Written questions | Answered | House of Commons | 47573

**Asked by:** Stevens, Jo | **Answered by:** Sir Robert Buckland  
| **Department:** Wales Office

The Department for Business, Energy and Industrial Strategy (BEIS) publishes annual estimates of gas and electricity bills along with statistics on household expenditure of fuel. The most recent statistics published by BEIS regarding average variable unit costs and standing charges for gas demonstrates that in 2021, in North Wales and Merseyside the average variable unit price (£/kWh) was on par with the average across Great Britain, while in South Wales the average was £0.0006 per kWh higher. Similarly, in 2021, the most recent statistics published by BEIS regarding average variable unit costs and standing charges for standard electricity saw those in South Wales see an average variable unit price (£/kWh) on par with the UK average, with those in North Wales and Merseyside paying £0.01 more than the UK average. This Government is committed to ensuring that all regions pay a fair price for energy.

The Government understands the pressures people are facing with the cost of living and today, the Prime Minister set out further measures of support that this government will be providing as we deal with these global challenges. Action taken by this government will see a typical household in Great Britain pay no more than £2,500 on their energy bills from October for each of the next two years. This will save a typical household £1,000 a year and comes in addition to the non-refundable £400 Energy Bill Support Scheme.

### Energy: Price Caps

To ask the Secretary of State for Business, Energy and Industrial Strategy, what discussions he has had with the Welsh Government on the potential impact of increases in the energy price cap on living standards.

22 Jul 2022 | Written questions | Answered | House of Commons | 36884

**Asked by:** Jones, Ruth | **Answered by:** Greg Hands  
| **Department:** Department for Business, Energy and Industrial Strategy

The Government understands the pressures that households are facing with the cost of living and in particular, the impact rising energy prices is having on consumers.

The Government recently announced a £15 billion package to support households with the cost of living, in addition to the over £22 billion previously committed, to help domestic energy customers with the cost of living and rising energy bills.

This support includes helping all domestic electricity customers in Great Britain cope with the impact of higher energy bills, with £400 off their bills from October through the expansion of the Energy Bills Support Scheme.

### Wales Office: Carbon Emissions

To ask the Secretary of State for Wales, what steps his Department is taking to contribute to efforts to reduce carbon emissions.

27 Apr 2022 | Written questions | Answered | House of Commons | 159077

**Asked by:** Anderson, Stuart | **Answered by:** David T C Davies  
| **Department:** Wales Office

The Department is committed to reducing emissions and energy consumption to reduce costs. The Department's current targets to make progress on reducing emissions have been published as part of the Greening Government Commitments. The Government's recently published British Energy Security Strategy will protect the UK from price spikes in the future by accelerating our move towards cleaner, cheaper, home-grown energy.

## Oral questions

- [Wales - Cost of Living](#)

Volume 717: debated on Wednesday 6 July 2022

- [Wales - Costs of Living: Households and Businesses](#)

Volume 715: debated on Wednesday 25 May 2022

## 6.2

## Debate and statements

### Cost of Living Crisis: Wales

HC Deb 19 July | Vol 718 c249WH-

### Energy update

HCWS295 | 22 September 2022

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### Press material

[Welsh households' energy bills set to rise to record-high levels](#), Nation Cymru, 1 October 2022

[The reason energy prices are higher in one region of Wales](#), Wales Online, 28 September 2022

[Energy prices: 'Difficult winter' ahead despite support – charity](#), BBC News Wales, 8 September 2022

[Wales clobbered by highest energy bills in UK](#), Wales News Online, 10 May 2022

[Welsh NHS energy costs to spiral by more than double as councils warn they may not survive](#), ITV News, 1 August 2022

## 8

### Further reading

#### Library briefings

The following Library briefings provide information relevant to energy costs in the UK in general:

- [Domestic energy prices](#) (Research Briefing, September 2022)
- [Oil prices](#) (Research Briefing, June 2022)
- [Petrol and diesel prices](#) (Research Briefing, June 2022)
- [Fuel Poverty](#) in the UK (Research Briefing, May 2022)
- [Rising cost of living in the UK](#) (Research Briefing, September 2022)
- [Energy Bills and Tariff Caps](#) (Research Briefing, September 2022)
- [Energy Bills Support Scheme: Government policy and FAQs](#) (Research Briefing, August 2022)
- [Rising Household Energy Costs and Consumer Protection](#) (House of Lords Library Research Briefing, January 2022)

#### Additional sources

- [How rising fuel costs are driving fuel poverty in Welsh homes](#), Senedd Research, 8 September 2022

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