

Debate Pack

20 October 2023

Number CDP 2023/0202

By Nicole Watson,
Patrick Grimes,
Nikki Sutherland,

Debate on energy social tariffs

1	Summary	2
2	Background	3
2.1	Rising energy prices	3
2.2	Variations in spending on energy by income	4
2.3	Government support for energy bills in 2022-23 and in the future	6
3	Social tariff proposals and commentary	7
3.1	Stakeholder commentary	8
	Calls for an energy tariff	8
	Potential challenges	10
3.2	Government response	11
4	PQs	12
5	News items	14

1

Summary

A Westminster Hall debate has been scheduled for 23 November 2023 on energy social tariffs. The subject for the debate has been chosen by the Backbench Business Committee and the debate will be opened by Marion Fellows MP.

Wholesale energy prices increased rapidly from the second half of 2021 and much of 2022, both globally and in the UK.

The government introduced a number of measures to protect consumers from rising prices, including the [Energy Price Guarantee](#) (EPG) and the [Energy Bill Support Scheme](#) (EBSS). Under the EPG, the government set maximum prices for gas and electricity which were below those under the existing [energy price cap](#). Under the EBS, every household with a domestic energy connection in GB received a £400 discount on their energy bills for winter 2022 to 2023.

The EPG is set to end in 2024 and the EBSS ended in March 2023. In the [2022 autumn statement in November 2022](#), the government announced that it would take a “new approach to consumer protection from April 2024” with regards to energy. It said it will “work with consumer groups and industry to consider the best approach, including options such as social tariffs, as part of wider retail market reforms”. The government have not yet published this consultation.

Campaign groups and industry stakeholders [have called for more targeted support for the most vulnerable households](#) in the form of an “energy social tariff”. An open letter to the Prime Minister (29 September 2023) calling for a social tariff argues that a social tariff would offer a long-term solution to fuel poverty and could have economic and health co-benefits.

This debate pack sets out different types of proposed social tariffs. It also provides stakeholder commentary on the benefits and challenges of a social tariff, along with relevant Parliamentary Questions and news items.

2

Background

A Westminster Hall debate has been scheduled for 3pm on 26 October on energy social tariffs. The subject for the debate has been chosen by the Backbench Business Committee and the debate will be opened by Marion Fellows MP.

2.1

Rising energy prices

Wholesale energy prices increased rapidly from the second half of 2021 and much of 2022, both globally and in the UK. The monthly increases in both gas and electricity prices in April 2022 were the largest recorded on a series going back to 1970.¹

Many consumers were initially protected by the energy price cap. However, the price cap increased by 54% in April 2022 and Ofgem planned to increase it by a further 80% on 1 October 2022.²

1 The Energy Price Cap

The [energy price cap](#) sets maximum prices for a unit of energy and daily standing charges for customers in each energy supply region of Great Britain. It covers prices for customers on default or standard variable tariffs.

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 in each region. The price cap does not cap maximum annual bills.

See the Library briefing [Energy bills and the price cap](#) for further background.

On 8 September 2022, the then Prime Minister Liz Truss announced that a new [Energy Price Guarantee \(EPG\)](#) would be introduced from 1 October. Under the EPG, the government set maximum prices for gas and electricity which were below those under the existing price cap. The government paid energy suppliers the difference between the EPG and the price cap.

¹ Office for National Statistics (ONS) series [D7DU](#) and [D7DT](#); Department for Energy and Climate Change, Quarterly fuel prices table 2.1.1 (archived)

² Ofgem [Default tariff cap level: 1 October 2022 to 31 December 2022](#) 26 August 2022

The EPG was set at £2,500 a year for typical levels of consumption³ and was initially planned to last two years. Following several changes to the EPG, in the [spring Budget 2023](#), which the Chancellor presented to Parliament in March 2023, the government announced that the EPG would remain at £2,500 until the end of June 2023. It would then increase to £3,000 from July 2023 to March 2024.

Wholesale energy prices have now fallen to below the level of the EPG and the price cap will fall again in October 2023 to £1,923. Despite this, annual bills for typical consumption under the cap will still be almost £800 or 69% above their summer 2021 levels.⁴

For further background, see the following Library Briefings:

- [Domestic energy prices](#) (September 2023)
- [Energy bills and the price cap](#) (September 2023)
- [Rising cost of living in the UK](#) (October 2023)
- [Gas and electricity prices under the Energy Price Guarantee and beyond](#) (October 2023)

2.2

Variations in spending on energy by income

Energy price rises would have had a disproportionate impact on lower income household. This is because any increase in prices will take up a greater share of their (smaller) family budgets. Lower-income households may also find it more difficult to shift patterns of spending from non-essential items to essentials like heating.

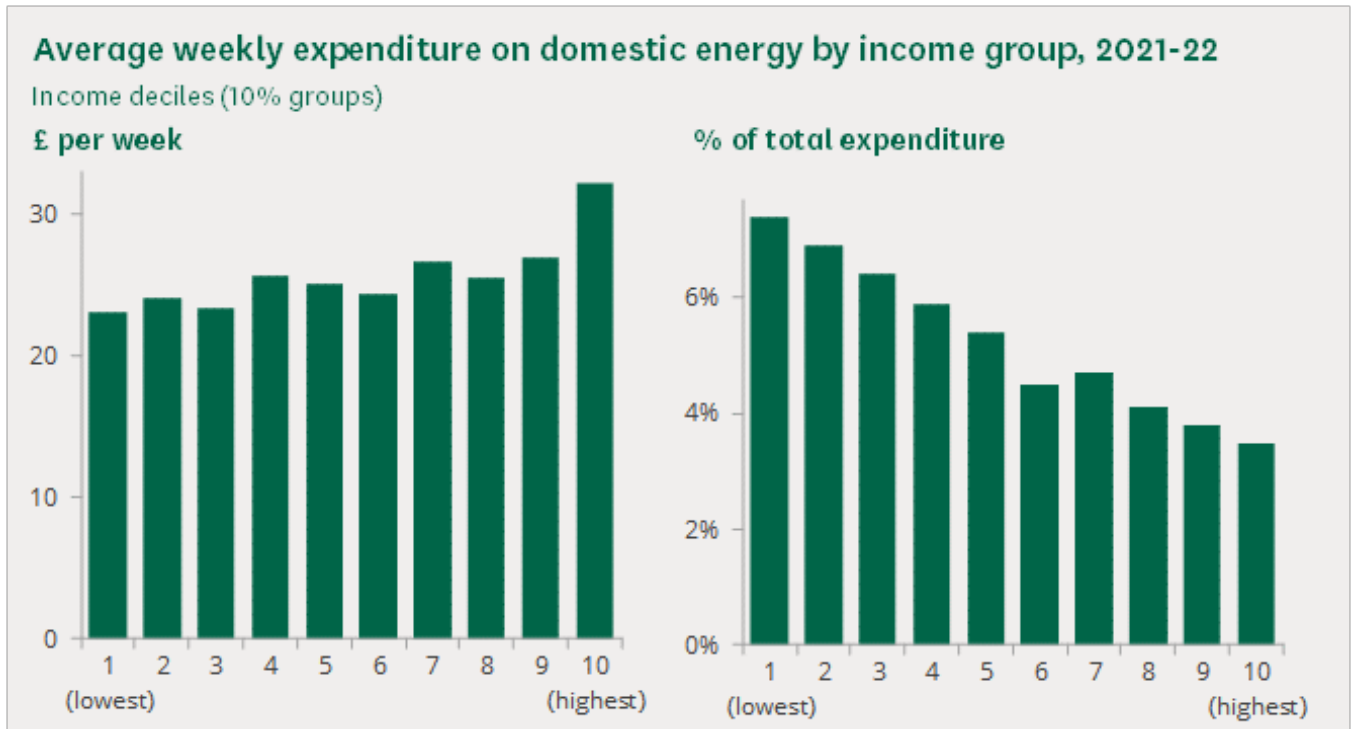
The charts below show that spending on energy⁵ increases with income, from around £23 per week in 2021-22 among the 10% of households with the lowest incomes⁶ (decile 1) to £32 per week among the 10% with the highest incomes (decile 10). However, as shown in the right-hand chart, spending on energy was much higher as a share of total expenditure in lower income groups; 7.4% in decile 1 and 6.9% in decile 2 compared to just 3.5% in decile 10. This data covers the year before the 54% increase in the price cap in April 2022.

³ Ofgem and the Department for Energy Security and Net Zero (DESNZ) make estimates about the amount of energy consumed by a “typical” household. An individual customer’s annual bill will largely depend on how much energy they use and households that use more energy could pay more than the EPG.

⁴ Ofgem [Energy prices to fall again this winter](#). 23 August 2023

⁵ Electricity, gas and other fuels.

⁶ Household expenditure is broken down by equivalised disposable income deciles.



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

During the energy crisis in the winter of 2022/23, there was increasing concern that rising prices would force some households to stop heating their homes or to not keep them warm enough. This may have negative impacts on their physical and mental health and wellbeing. There was evidence that customers on prepayment meters, who are generally poorer and more likely to be repaying a debt to their supplier, were already deliberately restricting their energy use (self-rationing) or not topping up their prepayment meters when they ran out of credit (self-disconnecting) in 2019.⁷

There were large increases in the number of prepayment meter customers 'self-disconnecting' their supply in 2022 and early 2023

The number of smart prepayment meter customers in Great Britain who self-disconnected their electricity at least once for a period of more than three hours increased from 165,000 in the final quarter (September to December) of 2021 to 269,000 in first quarter (January to March) 2023; a 63% increase. The number who self-disconnected their smart gas prepayment meter at least once for more than three hours increased from 193,000 in final quarter of 2021 to 534,000 in first quarter of 2023; an increase of 178%.⁸ These data cover around half of the 4 million customers who have prepayment meters.

Research from the [National Institute for Economic and Social Research \(NIESR\)](#) found that the EPG disproportionately benefited higher income households with higher levels of energy consumption.⁹

⁷ Ofgem, [Number of domestic smart prepayment meter customer self-disconnecting at least once](#)

⁸ Ofgem, [Number of domestic smart prepayment meter customer self-disconnecting at least once](#)

⁹ NIESR [Beyond the Energy Price Guarantee: With or without?](#) 26 October 2022

The Library briefing paper [Fuel Poverty in the UK](#) (March 2023) looks at how fuel poverty varies across the UK, how it has changed over time and measures to reduce it. The Library dashboard [Local area data: fuel poverty](#) (June 2023) provides fuel poverty statistics.

2.3

Government support for energy bills in 2022-23 and in the future

The government introduced various measures to help with rising energy bills and wider cost of living pressures. These are summarised in section 3 of the Library briefing [Rise of cost of living in the UK](#) (October 2023).

In addition to the EPG (see section 1), the government introduced other measures to support domestic consumers with energy bills including :

- the [Energy Bill Support Scheme](#) (EBSS). Under the EBS, every household with a domestic energy connection in GB received a £400 discount on their energy bills for winter 2022 to 2023. This ended in March 2023.
- the [Alternative Fuel Payment \(AFP\)](#). Households that use alternatives to mains gas for heating, such as heating oil, liquified petroleum gas (LPG) or coal received a one-off £200 payment credit on energy bills from February 2023.

The Library briefing [Constituency casework: Government support for energy bills](#) (March 2023) answers common questions on the support measures specifically aimed at energy bills.

The EBSS ended in March 2023 and the EPG is set to end in 2024. In the [2022 autumn statement in November 2022](#), the government announced that it would take a “new approach to consumer protection from April 2024” with regards to energy. It said it will “work with consumer groups and industry to consider the best approach, including options such as social tariffs, as part of wider retail market reforms”.¹⁰ The government have not yet published this consultation.

Campaign groups and industry stakeholders have called for more targeted support for the most vulnerable households in the form of an “energy social tariff”.¹¹ Further information about an energy social tariff is set out below.

¹⁰ Department for Business Energy and Industrial Strategy (BEIS) [BEIS in the Autumn Statement](#) 18 November

¹¹ National Energy Action [Open letter to the Prime Minister](#), 29 September 2023

3 Social tariff proposals and commentary

A definition of an energy social tariff is set out in [an explainer by the energy industry analysts](#) Cornwall Insight:

Whilst no legal definition exists for energy suppliers, a social tariff is often understood to be a levy or subsidy-funded reduction in the cost of basic utilities for targeted groups of customers, typically those least able to pay.¹²

There are three proposed types of social tariff:

- **Tariff deficit funded:** This approach would lower bills for specific consumers by offering lower unit rates, standing charges, or bill rebates. This could be funded either through a levy on consumer bills or taxation.¹³
- **Tiered approach (also known as ‘rising block tariffs’)** A tiered approach would increase the rate paid per unit of energy over ‘tiers’ of consumption. Households would pay more for their energy at higher levels of consumption considered to be above what is needed to meet a sufficient level of health and well-being for most homes. This approach assumes that households consuming more energy are more affluent. The scheme would need to make exceptions, for example for those with energy intensive medical equipment.¹⁴
- **Welfare linked approaches:** Similar to the existing [Warm Home Discount](#), social tariffs could work by delivering grants or energy bill discounts through extensive means testing and the use of new fuel poverty statistics.¹⁵

Further information is available in Cornwall Insight’s article [What are social tariffs and why might we need them?](#) (23 November 2022).

¹² Cornwall Insight [What are social tariffs and why might we need them?](#) 23 November 2022

¹³ For an example, see National Energy Action and Fair by Design, [Solving the cost of living crisis: the case for a new social tariff in the energy market](#) 5 July 2022

¹⁴ For an example, see Policy Exchange, [The Case for a Tiered Energy Relief Scheme](#) 1 September 2022

¹⁵ For an example, see UK Onward, [An Emergency Response to the Energy Crisis: a 5-point plan for the new Prime Minister](#) 5 September 2022

2 Social tariffs in the past and in other sectors

Social tariffs are not a new concept. Social tariffs offering bill reductions to those in receipt of certain benefits are currently available in the [water](#) and [telecommunications](#) industries.

Energy suppliers also offered social tariffs on a voluntary basis in the late 2000s, before the introduction of the Warm Home Discount in 2011. The [Warm Home Discount](#) can also be considered to be a type of welfare linked ‘social tariff’ – all licensed suppliers with over 50,000 customers are obligated to offer a £150 discount on energy bills each winter to those in receipt of certain benefits.

3.1

Stakeholder commentary

Calls for an energy tariff

Charities, industry groups and academics have highlighted the potential benefits of an energy social tariff to reduce fuel poverty.

For example, in September 2023, an [open letter from National Energy Action, Age UK, Citizens Advice, Energy Action Scotland, Fair By Design, MoneySavingExpert, and Scope](#) to the Prime Minister called for an energy social tariff. The letter has been supported by over 130 organisations. The signatories of the letter argued that an energy social tariff would offer a long-term solution to rising energy prices, and that it could cost less than a “costly sticking plaster”. The letter argues that a social tariff would help to reduce inflation by bringing down the cost of energy bills and that the money saved by households could support economic growth. It also states that a social tariff could reduce health service waiting lists, by reducing cold-related illnesses caused by living in an underheated home.¹⁶

Energy companies have also expressed support for government action. For example, the managing director for customers at the energy company EDF Energy’s, Phillipe Commaret, announced that the company will [reduce the standing charge down to pre-crisis levels for approximately 250,000 customers](#) who received the Warm Home Discount last year, as part of a wider package of measures designed to support vulnerable households over the winter. However, he noted that it is not sustainable for companies to do this on an individual basis and called for the government to “think about the

¹⁶ National Energy Action [Open letter to the Prime Minister](#), 29 September 2023

way that tariffs are set up”.¹⁷ Michael Lewis, chief executive of Eon, has also argued for a “rising block tariff”, stating that it would mean “everyone can get the basic energy at a cheap level, it also encourages people to economise [...] It’s a fairer way of distributing the cost of [government support].”¹⁸

Academic and industry reports calling for various forms of social tariffs include:

- The charities Fair by Design and National Energy Action have argued for a tariff deficit funded social tariff in their July 2022 report [Solving the cost of living crisis: the case for a new social tariff in the energy market](#).¹⁹
- [A report produced by University College London](#) (UCL) on behalf of the [Aldersgate Group](#) (a multistakeholder alliance that says it is “championing a competitive and environmentally sustainable economy”) has called for an automatic 30% discount to be applied to gas and electricity bills, targeted at homes that spend more than 10% of their household income on energy.²⁰
- The centre-right think tank, the Centre for Policy Studies (CPS), has argued that [the energy price cap should be scrapped](#), stating that it distorts the market. They call for “stronger protections as a bulwark against fuel poverty”, stating that this could take the form of a social tariff.²¹
- The Resolution Foundation (a think-tank focused on improving living standards for low- and middle-income households) [produced a briefing note](#) in August 2022 calling for a “30 per cent discount for low-to-middle income households offsetting the increase in energy costs since Ofgem’s prediction of a £2,800 annual price cap in May”.²²
- [A report from the National Institute of Economic and Social Research](#) argues for a “two-tier tariff providing more generous targeted support without eroding energy savings incentives” accompanied by a series of energy efficiency programmes.²³

In the [Business, Energy and Industrial Strategy Committee’s third report of the session 2022-23](#), the Committee expressed support for a social tariff, urging

¹⁷ BBC News [Campaigners call for more energy support for vulnerable households](#) 29 September 2023

¹⁸ Financial Times [‘Social tariff’ needed in Britain as high energy bills set to endure](#) 5 January 2023

¹⁹ National Energy Action and Fair by Design, [Solving the cost of living crisis: the case for a new social tariff in the energy market](#) 5 July 2022

²⁰ UCL and Aldersgate Group [The Case for a Social Tariff: Reducing Bills and Emissions, and Delivering for the Fuel Poor](#) (PDF) September 2023

²¹ CPS [The Case Against the Energy Price Cap](#) August 2023

²² Resolution Foundation [A chilling crisis: Policy options to deal with soaring energy prices](#) 25 August 2022

²³ NIESR [Beyond the Energy Price Guarantee: With or without?](#) 26 October 2022

the government to “consider the introduction of a social tariff for the most vulnerable customers and a relative tariff for the rest of the market.”²⁴

Ben Lake MP, chair of the All-Party Parliamentary Group on Fuel Poverty & Energy Efficiency, said:

The government cannot delay the introduction of a social tariff any longer. With energy debt soaring by 70% over the last three years, it’s vital that low-income and vulnerable households are protected. A social tariff would offer those in most need long-term security and provide much-needed relief from bills that are over 50% higher than pre-crisis. It’s time for the government to consult on these issues so a sustainable solution can be put in place.²⁵

Potential challenges

Other stakeholders have highlighted, however, that an energy social tariff may be difficult to appropriately target.

For example, [a report produced by the University of York Social Policy Research Unit](#) (19 October 2022) stated that energy suppliers often have little knowledge of the demographics of their customers and that receipt of certain benefits, which is often used as a form of means testing for energy grants and support, may not correlate with fuel consumption.

Similarly, a [blog post in May 2023](#) by the social software and analytics company Policy in Practice argued that not all households receiving means-tested benefits will be in fuel poverty. The post stated that it is “likely that there are families outside of the welfare system on a low income and in fuel poverty” and that “determining social tariff eligibility through means-tested benefits cannot effectively tackle fuel poverty”.²⁶ They argued that fuel poverty should be dealt with through the welfare state instead.

Others have argued that it is more important to prioritise improving energy efficiency over subsidising bills. For example, Mari Martiskainen, a professor of Energy and Society at the University of Sussex Business School, argued that “putting continuous support on bills is a little bit of a plaster”, stating that tackling the UK’s energy inefficient housing stock should be an urgent priority.²⁷ This view was also supported by Policy in Practice, who said that:

The most effective way to tackle fuel poverty and climate change is by investing in renewables and ensuring that all UK homes meet the minimum EPC standard of C or above.²⁸

²⁴ Business, [Energy and Industrial Strategy Committee Energy pricing and the future of the energy market Third Report of Session 2022–23](#) (PDF) 26 July 2022

²⁵ National Energy Action [Coalition of over 140 organisations and MPs call for consultation on a social tariff for energy](#) 28 September 2023

²⁶ Policy in Practice [Is a social tariff the best solution to high energy prices?](#) 26 May 2023

²⁷ Financial Times [‘Social tariff’ needed in Britain as high energy bills set to endure](#) 5 January 2023

²⁸ Policy in Practice [Is a social tariff the best solution to high energy prices?](#) 26 May 2023

3.2 Government response

In response to a [report from the BEIS committee](#) (published 13 October 2022, mentioned in section 2.1) which recommended that the government consider introducing a social tariff for energy bills, the government pointed to the measures it subsequently introduced including the EPG (see section 1.3). It also said:

Government will consider how price protection needs to evolve as the energy system changes to ensure that households benefit from new technologies, tariffs, and business models. Government will set out next steps on the future of the retail market in due course.²⁹

When asked whether the government would consider augmenting the energy price cap with a social tariff in a [debate on energy prices in July 2022](#), the then Minister for Energy, Greg Hands, responded that the government “replaced the social tariff with other support schemes for bill payers under the coalition” and “that remains our position”.³⁰

In [response to a parliamentary question](#) in October 2023, the Parliamentary Under Secretary of State for Energy Security and Net Zero, Amanda Solloway, said:

While energy prices are falling ... we are also providing additional targeted support for the most vulnerable, with 3 million households expected to benefit from the £150 warm home discount and millions of vulnerable households will receive up to £900 in further cost of living payments. We continue to keep all options under review for those most in need.³¹

²⁹ BEIS Committee [Energy pricing and the future of the energy market: Responses to the Committee's Third Report of Session 2022-23](#) 13 October 2022

³⁰ [HC Deb 12 July 2023](#), c125

³¹ [HC Deb 20 October 2023, PQ 203151](#)

4

PQs

Energy: Social Tariffs

Asked by: Byrne, Ian

To ask the Secretary of State for Energy Security and Net Zero, pursuant to the Answer of 24 April 2023 to Question 181721 on Energy: Prices, when her Department plans to publish a consultation on a social tariff for energy.

To ask the Secretary of State for Energy Security and Net Zero, pursuant to the Answer of 24 April 2023 to Question 181721 on Energy: Prices, what recent assessment she has made of the potential merits of a social tariff for energy.

Answering member: Amanda Solloway | Department: Department for Energy Security and Net Zero

As set out in the 2022 Autumn Statement, the Government is exploring the best approach to consumer protection, as part of wider retail market reforms.

The Government continues to monitor the situation and will keep options under review.

HC Deb 20 October 2023 | PQ 203150; PQ 203151

Energy: Prices

Asked by: Ribeiro-Addy, Bell

To ask the Secretary of State for Energy Security and Net Zero, if he will launch a consultation before the summer recess on options for a new approach to consumer protection in the energy markets from April 2024 onwards, including on the introduction of a social tariff.

Answering member: Amanda Solloway | Department: Department for Energy Security and Net Zero

As set out in the autumn statement, Government is exploring the best approach to consumer protection from April 2024, as part of wider retail market reforms. The Government will set out its proposals in due course. Up to then, in response to higher prices, the Government have put in place the Energy Price Guarantee and provided significant additional support to help those who need it most through this winter and into 2023-24.

HC Deb 13 July 2023 | PQ 193245

Energy: Social Tariffs

Asked by: Foxcroft, Vicky

To ask the Secretary of State for Energy Security and Net Zero, with reference to the oral contribution of the Minister for Disabled People, Health and Work

of 20 June 2023 on Cost of Living Support, what discussions he has had with disabled (a) people and (b) organisations on the potential merits of social tariffs on energy.

Answering member: Amanda Solloway | Department: Department for Energy Security and Net Zero

As set out in the autumn statement, the Government is exploring the best approach to consumer protection from April 2024, as part of wider retail market reforms.

As part of this work, officials have had discussions with disability organisations, including Age UK, Alzheimer's Society, Carer's Trust, Centre for Sustainable Energy, Citizen's Advice, Fair by Design, Leonard Cheshire, Leukaemia Care, Parkinson's UK and SCOPE. Minister Solloway has also met with disability organisations.

HC Deb 30 June 2023 | PQ 190626

[Energy: Prices](#)

Asked by: Maskell, Rachael

To ask the Secretary of State for Energy Security and Net Zero, whether he has made a recent assessment of the potential merits of an energy social tariff; and if he will run a pilot.

Answering member: Amanda Solloway | Department: Department for Energy Security and Net Zero

Officials in the Department for Energy Security and Net Zero are working closely with other Government Departments to assess options, including social tariffs, for a new approach to consumer protection from 2024. The Government intends to consult on options in summer 2023 that better targets support for those most in need.

HC Deb 24 April 2023 | PQ 181721

5

News items

Current +

26 September 2023

[Social tariffs could cut vulnerable households' energy bills by £330](#)

Current +

7 September 2023

[Public supports social tariff amidst fears of a tough winter](#)

Inside Housing

29 August 2023

[Why the government must urgently bring forward proposals for a social tariff in the energy market](#)

The Conversation

25 August 2023

[Energy price cap: a targeted 'social tariff' must be part of a much wider set of reforms](#)

Guardian

20 August 2023

[A social tariff could bring a warm glow to UK energy policy](#)

Guardian

14 August 2023

['Change is needed': Ofgem chief calls on ministers to rethink energy price caps](#)

Energy Live News

1 August 2023

[Fresh call for social tariff: "High energy prices are here to stay"](#)

Guardian

8 March 2023

[Martin Lewis backs 'social tariff' that could cut energy bills by up to £1,500](#)

Disclaimer

The Commons Library does not intend the information in our research publications and briefings to address the specific circumstances of any particular individual. We have published it to support the work of MPs. You should not rely upon it as legal or professional advice, or as a substitute for it. We do not accept any liability whatsoever for any errors, omissions or misstatements contained herein. You should consult a suitably qualified professional if you require specific advice or information. Read our briefing '[Legal help: where to go and how to pay](#)' for further information about sources of legal advice and help. This information is provided subject to the conditions of the Open Parliament Licence.

Sources and subscriptions for MPs and staff

We try to use sources in our research that everyone can access, but sometimes only information that exists behind a paywall or via a subscription is available. We provide access to many online subscriptions to MPs and parliamentary staff, please contact hoclbraryonline@parliament.uk or visit commonslibrary.parliament.uk/resources for more information.

Feedback

Every effort is made to ensure that the information contained in these publicly available briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Please note that authors are not always able to engage in discussions with members of the public who express opinions about the content of our research, although we will carefully consider and correct any factual errors.


You can read our feedback and complaints policy and our editorial policy at commonslibrary.parliament.uk. If you have general questions about the work of the House of Commons email hcenquiries@parliament.uk.

The House of Commons Library is a research and information service based in the UK Parliament. Our impartial analysis, statistical research and resources help MPs and their staff scrutinise legislation, develop policy, and support constituents.

Our published material is available to everyone on commonslibrary.parliament.uk.

Get our latest research delivered straight to your inbox. Subscribe at commonslibrary.parliament.uk/subscribe or scan the code below:



 commonslibrary.parliament.uk

 [@commonslibrary](https://twitter.com/commonslibrary)