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To: Cabinet, 29th September 2022

Subject: **KCC's Response to the Cost-of-Living Crisis - Addendum paper**

Classification: **Confidential**

Past Pathway of report: N/A

Future Pathway of report: N/A

Summary: This addendum paper details the Government's recent support package for rising energy bills for households announced on Thursday, 8 September, and for business and non-domestic energy users announced on Wednesday, 21 September. This is to provide supplementary information to the Cost of Living paper.

Recommendation:

Cabinet is asked to **NOTE** the Government's support package for rising energy bills.

1. Introduction

1.1 This addendum paper details the Government's recent support package for rising energy bills, which was announced on Thursday, 8 September.

2. The Energy Support Package

2.1 The Prime Minister, Liz Truss, has announced a support package to deal with rising energy bills and longer-term energy supply.

2.2 The Prime Minister **said** that – "This Government is moving immediately to introduce a new Energy Price Guarantee that will give people certainty on energy bills". Adding that "It will curb inflation and boost growth".

2.3 The Prime Minister had previously **said** that one of her "three early priorities" is dealing "hands-on with the energy crisis". The other two being, the economy and the NHS.

2.4 The Levelling up Secretary, Simon Clarke, has also said that "If we fail to act, if we don't protect the economy against the shock of the size and scale we are talking about, then there is going to be enormous damage".

3. Energy Price Guarantee (EPG) – Support for households

- 3.1 The Government is introducing an Energy Price Guarantee (EPG) to discount the unit cost for gas and electricity use. The Prime Minister has said that this will “give people certainty with their bills”.
- 3.2 This replaces the energy regulator’s, Ofgem’s, revised price cap - the highest amount suppliers are allowed to charge households for the energy they use. Under this arrangement, an average household's annual gas and electricity bill was due to rise from £1,971 to £3,549.
- 3.3 This means that from 1 October 2022 until 2024, a typical household will pay no more than £2,500 per year.

How the Energy Price Guarantee will be applied to energy bills

- 3.4 For consumers who pay for their energy through a monthly, quarterly or other regular bill, the EPG will be applied when a bill is calculated.
- 3.5 The Energy Price Guarantee limits the amount that will be charged per unit of gas or electricity, so the exact bill amount will continue to be influenced by how much energy is used.

Pre-payment meter customers

- 3.6 The EPG will be applied to the rate used for each unit of energy, so the money put on the meter will last longer than would otherwise have been the case this winter. As is the case with the ‘price cap’ under the Energy Price Guarantee there will continue to be a small difference between the unit cost for a pre-payment meter customer and other bill payers.

Standard variable tariff

- 3.7 From 1 October, the average unit price for dual fuel customers paying by direct debit will be limited to 34.0p/kWh for electricity and 10.3p/kWh for gas, inclusive of VAT. These unit prices have been passed to suppliers to ensure that they are used to calculate bills on time for 1 October. Energy suppliers will adjust standard variable tariffs automatically. Customers on standard variable tariffs do not need to take any action to get the benefits of this scheme.

Fixed tariffs

- 3.8 If a customer is on a fixed tariff at a higher rate caused by recent energy price rises, the unit prices will be reduced by 17p/kWh for electricity and 4.2p/kWh for gas. These unit prices have been passed to suppliers to ensure that they are used to calculate bills on time for 1 October. Energy suppliers will adjust fixed tariffs automatically. Customers on fixed tariffs do not need to take any action to get the benefits of this scheme.

Standing charges

- 3.9 Average standing charges will remain in line with the levels set by Ofgem for the default tariff cap from 1 October, at 46p per day for electricity and 28p per day for gas, for a typical dual fuel customer paying by direct debit.

Customers who are not connected to the grid

- 3.10 Government has [announced](#) it will provide an additional payment of £100 to households across the UK who are not able to receive support for their heating costs through the EPG. This might be because they live in an area of the UK that is not served by the gas grid and is to compensate for the rising costs of alternative fuels such as heating oil.

If electricity is paid for as part of rent

- 3.11 The EPG is applied per unit of gas or electricity used for households with a domestic electricity connection, so will be applied if a landlord has a domestic electricity contract with a licensed electricity supplier.
- 3.12 A landlord may be reselling the electricity based on usage, in which case:
- they must comply with the maximum resale price rules which say they must not make a profit
 - the maximum resale price for electricity is currently set at the same price as that paid by the person reselling it (see [Ofgem's guidance on ensuring customers are being charged no more than they should](#))
- 3.13 A landlord may charge an 'all inclusive' rent, where a fixed cost for energy usage is included in rental charges, in which case:
- they are encouraged to come to an agreement with renters on the EPG in line with the arrangement in a tenancy agreement, and Government are exploring a full range of options to ensure this happens, including using the planned emergency legislation.
 - the landlord's fixed charge may already provide a similar protection from the impact of energy price increases

Example savings based on your type of home

- 3.14 Under the new EPG, the average house will save an average of £1,000 (based on current prices from October), and the average flat will save £700. Table 1 provides further examples of potential savings for households.

Table 1: Illustration of Price differences under Energy Price Guarantee¹

Typical Bills - 2019 median consumption (Dual fuel, annual basis)

Property type	Under October price cap	Under government Energy Price Guarantee	Difference
All dwellings	£3,550	£2,500	£1,050
Houses	£3,800	£2,650	£1,150
Detached	£4,700	£3,300	£1,400
Semi Detached	£3,800	£2,650	£1,150
End Terraced	£3,500	£2,450	£1,050
Mid Terraced	£3,300	£2,350	£950
Bungalow	£3,500	£2,450	£1,050
Flats	£2,450	£1,750	£700
Converted flat	£2,750	£1,950	£800
Purpose built flat	£2,400	£1,750	£650

- 3.15 Energy suppliers will be fully compensated for the cost of the EPG. The Government will provide energy suppliers with the difference between the EPG cap, and what energy retailers would charge their customers were this not in place
- 3.16 The EPG is in addition to the [£400 Energy Bills Support Scheme \(EBSS\)](#) announced by the former Chancellor earlier this year. This will be paid in 6 instalments from October.
- 3.17 Government has also [announced](#) that the BBSS will be extended to include people such as park home residents and those tenants whose landlords pay for their energy via a commercial contract. The Government will introduce legislation to make sure landlords pass the EBSS discount on to tenants who pay all-inclusive bills.
- 3.18 The most vulnerable UK households will also continue to receive [£1,200 of support](#) provided in instalments over the year.
- 3.19 Energy companies have said that they will contact customers to inform them what the Government's measures mean for them.

Legislation

- 3.20 The Government will bring forward emergency legislation to enact this decision.

¹ Government's [Energy bills support factsheet](#), 8 September 2022.

4. Energy Bill Relief Scheme – Support for Business & Non-domestic energy users

- 4.1 The Government has also [announced](#) a separate scheme to cap energy prices for Business & Non-domestic energy users.
- 4.2 The Energy Bill Relief Scheme will provide a discount on wholesale gas and electricity prices for all non-domestic customers (including all UK businesses, the voluntary sector like charities and the public sector such as schools and hospitals). This support will be equivalent to the Energy Price Guarantee (EPG) for households.
- 4.3 This scheme will apply to fixed contracts agreed on or after 1 April 2022, as well as to deemed, variable and flexible tariffs and contracts. It will apply to energy usage for an initial six-month period - from 1 October 2022 to 31 March 2023. The savings will be first seen in October bills, which are typically received in November.
- 4.4 Customers do not need to take action or apply to the scheme to access the support. Support (in the form of a p/kWh discount) will automatically be applied to bills.
- 4.5 The Government has set a Supported Wholesale Price – expected to be £211 per MWh for electricity and £75 per MWh for gas - which is a discounted price per unit of gas and electricity. This is equivalent to the wholesale element of the Energy Price Guarantee for households. It includes the removal of green levies paid by non-domestic customers who receive support under the scheme.
- 4.6 The level of price reduction for each business will vary depending on their contract type and circumstances:

Customers on existing fixed price contracts

- Non-domestic customers on existing fixed price contracts will be eligible for support as long as the contract was agreed on or after 1 April 2022. Provided that the wholesale element of the price the customer is paying is above the Government Supported Price, their per unit energy costs will automatically be reduced by the relevant p/kWh for the duration of the Scheme. Customers entering new fixed price contracts after 1 October will receive support on the same basis.

Customers on default, deemed or variable tariffs

- Those on default, deemed or variable tariffs will receive a per-unit discount on energy costs, up to a maximum of the difference between the Supported Price and the average expected wholesale price over the period of the Scheme. The amount of this Maximum Discount is likely to be around £405/MWh for electricity and £115/MWh for gas, subject to wholesale market developments. Non-domestic customers on default or variable tariffs will therefore pay reduced bills, but these will still change over time and may still be subject to price increases. Government is working with suppliers to ensure all their customers are given the opportunity to switch to a fixed contract/tariff for the duration of the scheme if they wish, underpinned by the Government's Energy Bill Relief Scheme support.

Customers on flexible purchase contracts

- For businesses on flexible purchase contracts, typically some of the largest energy-using businesses, the level of reduction offered will be calculated by suppliers according to the specifics of that company's contract and will also be subject to the Maximum Discount.

Customers not connected to either the gas or electricity grid

- 4.7 If a customer is not connected to either the gas or electricity grid, equivalent support will also be provided for non-domestic consumers who use heating oil or alternative fuels instead of gas. Further details on this will be announced shortly.

Legislation

- 4.8 Emergency legislation is being introduced to underpin the Energy Bill Relief Scheme.

5. Review and monitoring of the schemes

EPG scheme

- 5.1 The Levelling up Secretary, Simon Clarke, has indicated that the EPG scheme is intended to last, and not have to be revisited. He has said that – “We want a lasting settlement that provides both comfort and clarity for both households and businesses. This is a major attempt to draw a line and provide energy certainty for everybody in this country about energy usage in the medium term”.
- 5.2 Martin Lewis, the consumer champion and founder of the MoneySavingExpert website, has also commented that “there will need to be some further work done looking at the very poorest in society to make sure that they can get through this. We need clarification on whether the remaining payments on benefits, the payments for those disabilities that were planned and announced in May, are still going to come through”. “The great benefits of this policy is that it helps everyone. The great problem with this policy is that it helps everyone”.
- 5.3 The Levelling Up Secretary has added that means-testing for the EPG would have been too complicated to implement.

Energy Bill Relief Scheme

- 5.4 Government will publish a review into the operation of the Energy Bill Relief Scheme in three months' time. This will inform decisions on future support after March 2023. The review will assess:
- How effective the scheme has been in giving support to vulnerable non-domestic customers.
 - Which groups of non-domestic customers (by sector, size or geography) remain particularly vulnerable to energy price rises, taking into account the latest price position and forward curves, alongside other cost pressures

- The extent to which the scheme could be extended and further targeted, or alternatively replaced with other targeted support for these most vulnerable users.
- The scheme is intended to have a broad application but there may be very limited exclusions, for example businesses that use gas or electricity to generate or store power they are selling back into the grid, such as power stations, pumped hydro or grid-level battery storage.
- The supported wholesale prices for gas and electricity under the scheme will be confirmed on 30 September.

5.5 The Prime Minister has [said](#) that, at the end of the six month period, Government “will provide further support to vulnerable sectors, such as hospitality, including our local pubs”.

6. Cost of the schemes

6.1 The Chancellor of the Exchequer will set out the expected costs as part of a fiscal statement later this month.

6.2 Government say that “cost projections for the delivery of the EPG are uncertain as they depend upon usage levels (which are highly dependent on weather patterns) and, for future three-month periods, the wholesale price of energy”.

6.3 The EPG and Energy Bill Relief Scheme include the temporary suspension of green levies, worth around £150. Schemes previously funded by green levies will also continue to be funded by the Government during this two-year period to ensure the UK’s investment in home-grown, secure renewable technologies continues.

6.4 The EPG scheme will be paid for out of general taxation.

6.5 The Deputy Director of the IFS, Carl Emmerson, has commented that he expects the EPG to cost at least £100 billion. He has said – “The cost will be very, very uncertain. It will depend on what happens to gas prices over the next two years, it will depend on whether this scheme is extended. I would be surprised if over the next 12 months it didn’t cost more than £100 billion. The uncertainty gets much greater the further out you go. This expires in two years’ time. On current expectations, that will make it a very painful winter in 2024-25. I think that does open the question about whether this scheme will get extended or not, just as the [COVID] furlough scheme got extended and extended again and again”.

6.6 During Prime Minister Questions (PMQs), the Prime Minister [reiterated](#) that she is “against a windfall tax”, saying – “I believe it is the wrong thing to be putting companies off investing in the United Kingdom, just when we need to be growing the economy”. The Prime Minister’s spokesman has added that the Government will keep the current windfall tax on energy companies – introduced earlier this year – but that no further windfall tax will be introduced. The spokesman said – “The Prime Minister is clear that we will not be introducing any further taxes in this space, given that we want to see broader investment in domestic oil and gas production as a transition fuel during this current global crisis we face”.

7. Reforms to the energy market

7.1 The Government is also proposing several reforms to the energy market, including two reviews and a [Liquidity Support Scheme](#) for energy companies.

One of the reviews will involve the Government setting up a new Energy Supply Taskforce, who are negotiating new contracts with energy suppliers. This is led by Madelaine McTernan who led the UK's COVID-19 Vaccine Taskforce. The Taskforce will also negotiate with electricity generators – including wind, solar and nuclear power producers.

8. Long-term energy supply

- 8.1 The Prime Minister [said](#) that energy policy in the past has not concentrated on energy supply enough, and Government will “defray the cost” of the EPG “by ramping up supply”.
- 8.2 Measures include: North Sea extraction, Renewables and Nuclear energy supplies, ending the moratorium on shale gas extraction, a review of energy regulation and a review of how to reach Net Zero, and the UK becoming a Net energy exporter by 2040

9. Energy use

- 9.1 The Prime Minister has previously said that she will not consider energy rationing this winter.
- 9.2 The Levelling up Secretary, Simon Clarke, has said – “Right now, discipline is important in this regard, we can all play our part in helping to keep prices low and to preserve the UK energy supplies. We’re not talking about introducing any form of energy rationing. Good sense and good housekeeping is clearly sensible and there’s still an economic driver for that”.
- 9.3 The IFS have also [highlighted](#) that “To correct the (large) mismatch between supply and demand, some users of energy – whether households, businesses or governments – will have to reduce their energy use. The less UK households reduce their energy demand, the greater demands placed on others. If other European countries also attempt to subsidise household or business use of energy, the result could be a bidding war that raises the cost of providing support in all countries. It also risks a situation where there is simply not enough energy to go round, which would require rationing or increase the risk of blackouts”.

10. Impact on the economy and households

- 10.1 The Prime Minister has said that the measures in the EPG scheme are “expected to curb inflation in up to 5 percentage points”.
- 10.2 The IFS has published an [assessment](#) of the EPG. They have [concluded](#) that under the EPG – “Poorer households will gain slightly less than richer ones in cash terms. But [as] energy spending accounts for a much larger share of poorer households' budgets. The poorest tenth will save on average 14% of their household spending, compared to 5% for the richest tenth”.

11. Further information

- The Government has launched a new [Help for Household website](#)
- Department for Business, Energy and Industrial Strategy [factsheet](#) on the measures
- [Government press release on the EPG measures](#)
- [House of Commons Written Statement](#)

- [The Prime Minister's opening speech in the House of Commons energy policy debate](#)
- [Government press release on the Energy Bill Relief Scheme](#)

12. Recommendation

(1) Cabinet is asked to **NOTE** the Government's support package for rising energy bills.

13. Background Documents

13.1 Cost of Living paper for Cabinet, 29 September 2022.