

New government support with energy bills

Government announces new Energy Price Guarantees

After what seems like an eternity without effective government, our new Prime Minister, has announced additional support for families and businesses to help minimise the impact of rising energy bills. The detail has yet to be fully published, and the costing of the proposal and future impact remain unclear.

Household costs

From 1 October 2022, the new Energy Price Guarantee will mean a typical average household will pay up to an average £2,500 a year on their energy bills for two years.

The estimate is that this will mean that based on the original price expectations, typical households will save an average of £1,000 a year - and this in addition to the previously announced £400 energy bills discount for all households

This is a potentially a significant reduction in the previously publicised price caps. Ofgem announced on 26 August 2022 that the price cap would increase to £3,549 per year for dual fuel from 1 October 2022.

The new guarantee limits the price suppliers can charge customers for units of gas. This takes account of temporarily removing green levies, worth only around £150, from household bills. The guarantee will supersede the existing energy price cap and will apply to households in Great Britain, with the same level of support made available to households in Northern Ireland.

Those households who do not pay direct for mains gas and electricity – such as those living in park homes or on heat networks – will be no worse off and receive support through a new fund. Details yet to be published.

Business energy costs

There has been a flurry of lobbying by various energy-hungry commercial groups to have their energy bills reduced. Many are predicting mass close-downs and insolvency if their requests are not met.

In the announcement today it was confirmed that:

“As businesses have not benefited from an energy price cap and are not always able to fix their energy price through fixed deals, many are reporting projected increases in energy costs of more than 500%.

“A new six-month scheme for businesses and other non-domestic energy users (including charities and public sector organisations like schools) will offer equivalent support as is being provided for consumers. This will protect them from soaring energy costs and provide them with the certainty they need to plan their business.

“After this initial six-month scheme, the Government will provide ongoing, focused support for vulnerable industries. There will be a review in 3 months’ time to consider where this should be targeted to make sure those most in need get support.”

The government announcement for businesses was **also light on detail** and we await the fine print to see how support will translate into energy cost reductions in key industrial sectors.

General comments

The Government will provide energy suppliers with the difference between the new lower price, and what energy retailers would charge their customers were this not in place. 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. This support will be in the form of loans to the energy suppliers which will be repaid with an on cost to the consumers over time.

The government has again resisted the use of a windfall tax on the companies.

It is expected that the cost of this will be over £100 billion and over this time will be borne by taxpayers.