HOUSE OF COMMONS ENERGY SECURITY AND NET ZERO COMMITTEE INQUIRY: THE COST OF ENERGY

END FUEL POVERTY COALITION RESPONSE
8 April 2025

The End Fuel Poverty Coalition is a broad coalition of more than 100 anti-poverty, health, housing and environmental campaigners, charities, local authorities, trade unions and consumer organisations. It is also supported by academics, social enterprises and those working on the front line of fighting fuel poverty.

The UK is at a crossroads. Without urgent action, millions will remain trapped in fuel poverty. But with the right reforms – fairer pricing, smarter markets, stronger protections, and scaled-up investment – we can reduce bills, improve health outcomes, and build a more equitable and sustainable energy future.

1. Are the costs and benefits of the energy system properly reflected in consumer bills?

No, the costs and benefits of the UK's energy system are not properly reflected in consumer bills.

One of the key issues is the growing burden of standing charges. These fixed daily fees are levied on all households regardless of how much energy they use, placing an especially disproportionate burden on low-income and low-consumption households. Standing charges have increased significantly, even during periods when wholesale energy costs have declined. The outcome is that households already rationing energy still face unaffordable bills, undermining efforts to reduce energy poverty.

In particular, standing charges reflect a misallocation of system costs. Infrastructure upgrades, supplier failures, and the costs of maintaining the grid are passed directly onto billpayers, regardless of their ability to pay or benefit from such investments. This means the poorest households subsidise systemic costs, while better-off consumers or profit-making firms face fewer direct costs.

Additionally, electricity prices remain disproportionately high compared to gas, despite electricity increasingly being generated from renewables. This pricing imbalance has severe implications for those in all-electric homes, many of which are in the least energy-efficient housing stock, who face double the rates of fuel poverty compared to gas users [1]. This is a fundamental market failure that discourages clean energy use and punishes those who already live in substandard housing.

The profits of energy suppliers further highlight the disconnect between system benefits and consumer bills. EFPC's Energy Profits Tracker has established that major energy companies posted record profits in the same period households faced unaffordable energy prices. These profits are not being redistributed in the form of rebates, bill reductions, or systemic improvements for consumers. In essence, this means that benefits of the energy system are captured at the top while the costs are passed downwards.

Supplier of Last Resort (SOLR) costs are another example of risk being socialised through consumer bills rather than borne by the profit-making market. Over £2.7 billion of these costs were passed onto households, even though the failures were largely due to poor regulatory oversight and risky business models. The recent failure of Rebel Energy has shown that Ofgem has neither the desire nor the ability to prevent further market collapse and has dragged its heels in implementing SOLR reforms [2].

In short, consumer bills do not reflect the actual costs or benefits of energy generation, delivery, or market reform. We need fundamental reforms such as removing infrastructure and failure-related costs from bills and placing them within general taxation or other more progressive funding streams.

2. How should consumer bills be insulated from inflated prices due to shocks to the global supply of gas? What needs to change?

Consumers must not shoulder the cost of global gas market volatility.

The spike in energy prices exposed the fragility of the UK's over-reliance on gas and its failure to protect consumers from external shocks.

The proposals previously set out for an Emergency Energy Tariff could still be implemented to protect against future shocks. This proposal would create a protective energy price for vulnerable households, triggered automatically when wholesale prices exceed a defined threshold.

Given evidence shows that as wholesale prices increase, so do profits of energy firms, and therefore the income to the Exchequer generated through the Energy Profits Levy ("Windfall Tax"), the Government could give this undertaking safe in the knowledge that any costs for introduction would be met by future revenues.

There also needs to be a fundamental rebalancing of the wholesale electricity market. Currently, the price of electricity is tied to the cost of gas so that even when electricity is increasingly produced from cheaper, renewable sources, consumers do not see the benefits and are exposed to the risks. This occurs 97% of the time according to NESTA and inflates consumer prices unnecessarily. It should be removed through reforms to the Retail Electricity Markets Arrangements.

Of course, the largest protective measure available is to bring down energy usage in a safe way. Improving home energy efficiency is the most effective long-term strategy to reduce household exposure to price shocks. Cold, leaky homes require significantly more energy to heat, and therefore cost more during price surges. The Chancellor needs to commit the full £13.2 billion to the Warm Homes Plan as promised in the Labour 2024 election campaign. This could insulate millions of homes and cut bills substantially.

The reliance on volatile fossil fuel markets has proven disastrous for consumers. Meaningful insulation from price shocks will only come through decarbonisation, demand reduction, and fairer pricing - alongside social protection measures.

3. Where should the costs of decarbonising the energy grid lie?

The costs of decarbonising the grid should not be disproportionately borne by individual consumers, especially those already in fuel poverty.

The current system often funds decarbonisation initiatives through levies and charges on energy bills. These include costs related to the Renewable Obligation, Feed-in Tariffs, and Contracts for Difference [3].

While these support necessary infrastructure, when funded through consumer bills they are regressive. The risk is that also following this approach for gas decommissioning will force the poorest to pay the most, even though many will have contributed less to emissions (though lower usage) and have the least capacity to pay.

General taxation is the fairest mechanism to finance grid decarbonisation. Taxation allows the costs to be distributed according to income, wealth, and ability to pay and across the economy as a whole rather than on household bills. It may also be possible to use GB Energy as an investment vehicle to take on risk and reduce the cost of new infrastructure development.

The Warm Homes Plan must also explicitly support low-income households in the decarbonisation process. This would include funding for retrofitting, heat pump installation, and transitioning away from fossil-fuel-based heating systems.

We also support measures to rebalance grid charges so that regions with high renewable generation are not penalised with higher transmission fees, another hidden cost passed onto consumers. These costs should be pooled nationally or subsidised through public investment. We have yet to see evidence to show how a fairer regional settlement could be achieved through zonal pricing.

If well-funded and fairly distributed, the move to a decarbonised energy system could lift millions out of fuel poverty and create long-term energy security for all.

4. Is it practical for consumer bills to be reduced by £300 before the end of the Parliament?

Yes. This is more than possible, but the Government needs to be bold in its actions to make it happen.

1. **Radically reduce standing charges**: Standing charges are fixed daily costs that hit low-income and low-consumption households hardest. Reforming or removing these could save many households over **£100 a year**.

2. **Invest in energy efficiency upgrades**: The Warm Homes Plan needs the full £13.2 billion investment to retrofit the UK's coldest homes. Upgrading a home from EPC Band E to Band C could save over **£400 per year** on bills by reducing energy consumption in a safe way [4]. Prioritising the least energy-efficient homes would deliver fast savings for the most vulnerable. At a national level, progress in this area will be reflected in the next reassessment of Typical Domestic Consumption Values

by Ofgem and the regulator should undertake this work in 2029 to give programmes a chance to deliver.

3. **Break the link between gas and electricity prices**: Wholesale pricing reform should ensure that electricity costs reflect the growing share of cheaper renewables rather than volatile gas prices. Correcting this distortion could reduce electricity bills for consumers [5].

4. **Reforming energy trading markets**: New analysis from Future Energy Associates finds that households could save an average of **£173.34 per year** on electricity bills through reforms to the UK's wholesale trading markets.

   Current market practices allow speculative traders—many based offshore—to profit from energy price fluctuations without supplying any electricity to consumers. These firms, including Vitol, Trafigura, Glencore, and Mercuria, can exploit volatility caused by supply shocks, ultimately inflating consumer prices.

   Additionally, energy retailers often rely on costly "Over The Counter" (OTC) trading, where hidden costs like broker fees and risk premiums are passed on to consumers.

   Reconfiguring the market to prioritise efficiency, transparency, and public interest, potentially through a greater role for GB Energy, could eliminate these inefficiencies and save households billions annually.

5. **Expand the Warm Home Discount (winter 2025/26) and introduce a social tariff (winter 2026/27)**: Many eligible households miss out on the current £150 rebate due to narrow eligibility criteria and this must be expanded alongside our consultation response to the Government on this issue. From 2026/27, a targeted social tariff would limit energy bills by providing a unit rate discount to eligible households.

Any additional funding required for these measures could be more than met by extending the current Energy Profits Levy both in its duration and scope. For example, network and transmission firms and energy market traders could all see the excessive profits generated taxed at a fairer level.

Reducing bills by £300 is not only feasible, but is an imperative. Many of the tools to achieve this already exist. What is needed is political will and a commitment to put consumers at the heart of energy policy.

5. Does the Energy Ombudsman service provide a responsive, accessible service for consumers in dispute with their energy providers?

We have not undertaken a comprehensive assessment of the Energy Ombudsman's service. However, we remain concerned that consumer redress, advocacy, regulatory oversight and consumer protection do need significant improvement.

About the End Fuel Poverty Coalition

The End Fuel Poverty Coalition is a broad coalition of more than 100 anti-poverty, health, housing and environmental campaigners, charities, local authorities, trade unions and consumer organisations. It is also supported by academics, social enterprises and those working on the front line of fighting fuel poverty.

We believe that everybody has the right to a warm, dry home that they can afford to heat and power.

Members of the Coalition include: Action with Communities in Rural England, ACE Research, Advice for Renters, AgeUK, All Birmingham's Children, Austerity Action Group, Association of Green Councillors, Association of Local Energy Officers, Association for Decentralised Energy, Asthma + Lung UK, Basingstoke & Deane Borough Council, Beat the Cold, Bruton Town Council, Camden Federation of Private Tenants, Carers Trust, Child Poverty Action Group, Church Poverty Action, Chartered Institute of Environmental Health, Chartered Institute of Housing, Community Action Northumberland, Centre for Sustainable Energy, Climate Action Network West Midlands, Debt Justice, Disability Poverty Campaign Group, Disability Rights UK, E3G, EBICO, Energise Sussex Coast, Energy Advice Line, Energy Cities, Epilepsy Action, Exeter Community Energy, Fair Energy Campaign, Fair By Design, Foster Support, Friends of the Earth, Fuel Poverty Action, Fuel Poverty Research Network, Generation Rent, Good Law Project, Greenpeace, Groundwork, Hackney Foodbank, Heat Trust, Home Start Oxford, Independent Age, Independent Food Aid Network, Inner City Life, Joseph Rowntree Foundation, Lambeth Pensioners Action Group, London Borough of Camden, London Borough of Lewisham, Marie Curie, Mencap, Mayor of London, MECC Trust, Moorland Climate Action, National Pensioners Convention, National Union of Students / Students Organising for Sustainability, NCB, National Energy Action, New Economics Foundation, National Federation of Women's Institutes, Northern Health Services Alliance, Oxford City Council, Positive Money Tower Hamlets, Plymouth Community Energy, Redcar & Cleveland Council, Repowering London, Retrofit Bruton, Right To Energy Coalition, Rossendale Valley Energy, Ryecroft Community Hub, Save the Children, Sense, Severn Wye, Scope, Shaping Our Lives, Social Workers Union, South Dartmoor Community Energy, South East London Community Energy, Southwark Group of Tenants Organisations, South West London Law Centres, Stop The Squeeze, Tamar Energy Community, Thinking Works, Uplift, UNISON, Warm & Well North Yorkshire, Warm & Well in Merton, Winter Warmth Network, Young Lives vs Cancer, 361 Energy.

The Coalition is also part of the End Child Poverty Coalition and the Renters Reform Coalition. We work closely with Energy Action Scotland, NEA Wales and the Fuel Poverty NI coalition. The coordination for the End Fuel Poverty Coalition is provided by social enterprise Campaign Collective.

Contact: info@endfuelpoverty.org.uk

Notes:
[1] Fair By Design & Sustainable Energy Association, 2023, "Paying More to be Poor: How Energy Pricing Harms Low-Income Households"

[2] Our response welcomed Ofgem’s proposed SOLR reforms, which according to Ofgem’s website were due to come into force in “early 2025.”

[3] DESNZ CfD Consultation
https://assets.publishing.service.gov.uk/media/62612b528fa8f523be001b16/fits-cfd-guarantee-origin-consultation.pdf

[4] Committee on Fuel Poverty Annual Report 2022 and the Lenders Project.

[5] Energy UK. The Coalition has been clear in its recommendations that the REMA review team must set out how this can be achieved.