

Household energy bill increases caused primarily by rising cost of gas, not environmental policies

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The Committee on Climate Change (CCC) has published its first comprehensive analysis of the impact of meeting carbon budgets on household energy bills. The Committee concludes that recent bill increases are primarily due to increased wholesale gas costs. Out to 2020, policies to achieve a low-carbon economy will add around £110 to bills – with scope to offset this if energy efficiency can be improved.

The Committee's findings therefore disprove often repeated claims that recent bill increases are due to environmental policy costs, and that major investments in low-carbon power capacity will drive dramatic bill increases over the next decade (e.g. as high as £3,000).

The Committee's analysis focuses on the 84% of UK households (21 million) that have dual-fuel energy bills (i.e. use gas for heating rather than electricity or other fuels).

For these households, energy bills increased from around £605 per household in 2004 to £1,060 in 2010 (i.e. by £455). Of this increase, around £380 (84%) was unrelated to low-carbon measures, with £290 due to increases in the wholesale costs reflecting increases in the price of gas and supplier costs, £70 due to increasing transmission and distribution costs, and £20 due to VAT. Around £75 (16%) was due to policies that reduce carbon emissions, including £30 to support investment in low-carbon power generation, and £45 for funding energy efficiency improvements in homes.

Looking forward, bills are projected to increase by around £110 over the next decade to support investment in low-carbon power capacity (£100) and energy efficiency in homes (£10). Further increases will be required to support grid investment (£15), and may be required depending on gas price movements.

However, there is scope for bill reduction relative to 2010, both because this was a cold year requiring high energy consumption for heating, and because much of the UK's boiler stock will be replaced by modern and much more efficient boilers over the next decade.

The Committee also highlights opportunities for further energy efficiency improvement:

- Insulation and more efficient use of heating controls could reduce gas consumption by around 8%.
- Replacement of lights and appliances with the most efficient models as the stock turns over could reduce electricity consumption by 19%.

If these improvements can be achieved, then energy bills in 2020 are projected to be broadly at 2010 levels. However, the Committee stresses the need for new policies with strengthened incentives in order to encourage energy efficiency improvement.

The Committee also assessed the outlook to 2020 on bills for households that do not use dual-fuel gas/ electricity, finding that bill impacts are likely to be similar for households with oil, liquid petroleum gas (LPG) or solid fuels (7% of households).

Households with electric heating (9%) could be disproportionately affected by future costs of low-carbon measures (as these will predominantly fall on electricity bills). Measures to address bill impacts for these households will therefore be important (e.g. Affordable Warmth elements of the Green Deal).

Lord Adair Turner, Chair of the Committee on Climate Change said:

“We were keen to provide a dispassionate analysis of household bill impacts in what has become a politically controversial area. We found that bills have increased primarily in response to increased wholesale gas costs and not due to environmental policies. Over the next decade, we anticipate a rise of around £100 in the average bill as a result of investment in low-carbon power capacity, which will benefit the UK in the long run. And if we introduce new policies to stimulate energy efficiency improvement then bills in 2020 could broadly be contained at current levels.”

ENDS

Notes to Editors

The Committee on Climate Change (CCC)

The CCC is an independent statutory body established under the Climate Change Act to advise the UK Government on setting carbon budgets, and to report to Parliament on the progress made in reducing greenhouse gas emissions: www.theccc.org.uk/.

- The Committee's report, "***Household energy bills – impacts of meeting carbon budgets***" sets out analysis of energy bill impacts from meeting carbon budgets to date and over the next decade. It includes assessments of price impacts from wholesale gas prices, financing low-carbon investments and energy efficiency measures, together with scope for reductions in energy demand and bills through energy efficiency improvement.
- The report is available to download from: <http://www.theccc.org.uk/reports/household-energy-bills>

For further information/ media bids please contact:

Jo Wilson joanne.wilson@theccc.gsi.gov.uk 0207 591 6262, 07768 370 528

Emily Towers emily.towers@theccc.gsi.gov.uk 0207 591 6131, 07766 366 577