

Environment APPG briefing: how do we protect UK energy consumers from the spike in gas prices?



What has caused the spike in gas prices?

Soaring [global gas prices](#) have left the UK facing instability in its energy supply – with fears for consumers as bills look set to rise, alarm over supplies of CO2 for food production, and some small and medium-sized energy firms likely to go bankrupt. Energy price spikes like these are driven in large part by the volatile nature of fossil fuel prices, driven by global and geopolitical factors beyond the control of any one country.

Governments that have prioritised domestic low carbon energy are much more insulated to such shocks.

The rise in gas prices has been driven by: **(1)** a cold winter in the northern hemisphere has depleted gas storage levels, while increased demand in East Asia has seen liquified natural gas shipments delivered there, rather than to Europe; **(2)** reductions in gas supply from Russia to Europe, reducing storage and increasing the price on the continent; and **(3)** scarcity in electricity generation created by [a period of very low wind](#), [a fire affecting the main power interconnector between France and Britain last week](#), and [five nuclear units currently being off grid](#).

While **the immediate priority should be keeping costs for consumers in check** and maintaining a broad range of suppliers, this challenging situation also provides a vital opportunity to catalyse action that ensures the creation of a more resilient energy system in future.

What needs to happen in the short-term to protect consumers?

The Energy Price Cap is a policy which ensures there is a maximum price suppliers can charge customers on a standard or default tariff. Energy regulator Ofgem first introduced the cap in 2019 and its level is reviewed twice annually. The price cap rose [by 12% in August](#) due to wholesale gas price rises. As its greatest priority, the Government must, over the coming months, ensure that bills are kept low for the most vulnerable consumers.

What needs to happen to stop this from happening again?

Currently, the UK is very dependent on gas for energy – [with 85 per cent of homes using it for heating](#) and more than a [third of electricity supplies](#) coming from gas power plants. The supply comes domestically from the North Sea, as well as from countries like Norway. Dependence on imported gas and competition internationally for a volatile supply can cause significant price variations. The burning of gas for fuel is also responsible for greenhouse gas emissions and climate change.

Once the current gas price rises have come down, to limit the risk of this situation repeating itself and to boost the resilience of the UK energy system – the Government has a crucial chance to take bold action to reduce the UK's demand for gas. For this, the Government could announce a policy package containing the following elements:

1. Scale up investment in home efficiency and clean heat alternatives

By ensuring homes are better insulated, the UK can reduce the energy demand for heating (which currently mostly relies on gas). **The government's forthcoming Heat and Building Strategy and**

Comprehensive Spending Review are ideal opportunities to set out long-term regulation and incentives. The 2019 Conservative manifesto pledged £9.2 billion in energy efficiency schemes, but annual spending to date has fallen short, following the scrapping of the Green Homes Grant earlier this year.

The UK could also scale up supply chains for innovative home retrofits, like [Energiesprong](#), which could cut each home's heat demand by at least 90 per cent. Retrofitting 11 million homes by this method would cut peak domestic heat demand by over 40 per cent. **The lack of focus on upgrading homes has therefore left British households more vulnerable to price shocks and higher bills.**

2. Remove subsidy on gas and reduce levy on electricity bills

We can protect the UK from future gas shocks by investing in a heating system based on electricity. **Currently, while levies are applied to electricity bills to fund energy and climate policies, and electricity is covered by a carbon tax, gas faces none of these charges.** It is also subject to a reduced VAT rate, which acts as a subsidy. Removing levies on electricity bills can help decarbonise home heating and reduce household bills at the same time. Research by [Oxford University](#) found that the current levy structure provides an active disincentive to adopt cleaner alternatives, like heat pumps. Any reforms that might increase consumer prices must be carefully managed to protect vulnerable users, for instance by applying rebates.

3. Increase investment in domestic renewables and phase-out gas

The government can continue its enormous success at reducing emissions from the power sector with a commitment to decarbonise the electricity grid by 2035. This could be complimented by guarantees around security of supply, the rapid adoption of policies to support flexibility and storage, and new ambitions around onshore wind and solar deployment in England to ensure that the pathway to decarbonisation focuses on renewable technologies.

Generating electricity from existing gas plants is now three times as expensive as generation from new onshore wind, and almost twice as expensive as generation from [solar](#). In 2016 the Government predicted that offshore wind generation would cost £107/MWh in 2025, but in 2020 [this estimate was roughly halved](#) to £57/MWh.

Nuclear is a reliable baseload and low-carbon power, but it remains more expensive than renewables, with concerns about economic viability compared to renewables and risks associated with nuclear waste disposal too.

Hydrogen has significant potential, particularly for home heating, however 'blue' hydrogen currently carries a large carbon footprint, so increasing renewable energy capacity should be a key prerequisite for hydrogen deployment.

Public opinion

The public are overwhelmingly in favour of measures to increase investment into renewable energy and to phase out fossil fuels:

- Polling by [Ipsos Mori](#) showed that a majority of Britons (71 per cent) supported greater investment in renewable energy in the UK, compared to just 7 per cent who actively opposed it.

In the same survey, a slim majority (51 per cent) supported ending investments in coal, oil and gas projects abroad.

- According to public opinion polling by [Public First](#), 76 per cent of people support government funding for energy efficient upgrades to homes, whilst just 10 per cent oppose.
- Research by [Bright Blue](#) also found high public support for offering financial subsidies for installing better home insulation (69 per cent), switching away from natural gas heat in homes (62 per cent) and subsidising solar panels for homes (69 per cent).
- The [UK Climate Assembly](#) supported a ban on sales of new gas boilers from 2030 or 2035 (86 per cent), changes to VAT on energy efficiency and zero carbon heating products (68%), and to raise money through taxation and government borrowing (65 per cent). In addition, 80-90% wind and solar power for electricity supply, compared to 34% for nuclear and 22% for fossil fuels with Carbon Capture and Storage.

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