

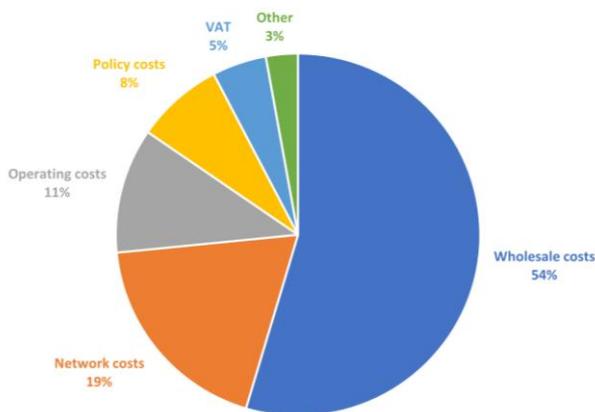
Energy UK's 60-second explainer: What are 'green levies'?

July 2022

Key points

- The term 'green levies' refers to environmental and social policies on bills ('policy costs'), which includes support for pensioners and the most vulnerable constituents to make their homes more energy efficient.
- Last year these policy costs made up around 12% of bills, this year they're around 8% - while nearly all other costs have increased.
- Energy bills have been driven by the price rise of gas which is now six times higher than in June 2021.
- Paying for policies through bills rather than general taxation is widely agreed to be regressive, as it results in a greater proportion of the total spend being met by those in lower income households.
- Moving costs away from bills would save households around £150 a year but the support for pensioners and the most vulnerable must be met by general taxation. There is also a risk that removing contractual policy costs could stifle investment in the renewables sector, unless government looks at ways to ensure support remains in place.
- The way to protect customers from future price shocks is to ramp up investment in making our homes and buildings more efficient and reducing reliance on a volatile gas market.

What makes up an energy bill?



Source: Ofgem

What are some of the policy costs on bills?

- The **Warm Home Discount** targets support for low-income households and people receiving pension credits.
- The **Energy Company Obligation (ECO)** funds energy efficiency measures to sustainably lower bills for those who need it.
- ECO has saved households £17.5bn since 2013. From October, those with an EPC of C or above can expect to save around £916 per year compared to those in homes rated EPC D or worse.^{1,2}
- The **Contracts for Difference** is part of why the UK has become a world leader in offshore wind.
- The **Renewables Obligation** places a duty on licensed electricity suppliers to source a proportion of their supply to customers from eligible renewable sources.
- Renewables are now by far the cheapest form of electricity.

Policy costs are vital to supporting households, but they don't need to be on bills

- It is estimated that UK energy bills are nearly £2.5bn higher than they would have been if all environmental policies had not been reduced over the last decade.³
- Completely removing policy costs risks households missing out on lowering their bills in the longer term and could reduce investment in renewable energy during an energy crisis by breaking legally binding contracts.
- Policy costs have helped to save households money and moving them onto general taxation would reduce bills further whilst ensuring long term investment in renewables continues.

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¹E3G, 2022

²E3G, 2022

³Carbon Brief