

Rt Hon Nadhim Zahawi MP
Chancellor of the Exchequer
H M Treasury
1 Horse Guards Road
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By email

17th August 2022

Dear Chancellor,

Thank you for hosting the meeting last week with the Prime Minister, Secretary of State for BEIS, and representatives of the energy industry. Energy UK is keen to work closely with Government to ensure people get the help and support they need to pay their energy bills this winter. The latest projections for the price cap this winter are increasingly worrying and it's clear that despite the generous package of support announced in May, further Government action is necessary.

The typical energy bill increased from an annual equivalent of £1,277 in winter 2021/2022 to £1,971 in summer 2022. It is expected to rise again to over £3500 in October, and subsequently to potentially over £4,200 from January 2023. These prices will be unaffordable for far too many households, and swift action to help people with the cost of energy this winter is now crucial. There are a limited number of options available given the timescales, and Energy UK urges the Government to opt for the most practicable measures

- **Immediately commit to increasing the amount of support this winter.** The Government has already established a mechanism to deliver the Energy Bills Support Scheme (EBSS) which will give households £400 between October 2022 and March 2023. This was based on lower price estimates and needs to be increased in line with the expected October price rises. An enhanced EBSS is the most straightforward, practical way to immediately provide broad support to customers ahead of Christmas.
- **Urgently work with industry and financial institutions to introduce a deficit tariff scheme to protect energy consumers, until broader wholesale market reform can be brought forward.** This approach would look to lower and stabilise prices for consumers through 2023 by using government-backed loans to smooth rising wholesale costs for consumers (potentially both domestic and non-domestic) over a longer period of time (10/15+ years).

At the roundtable last week, we also discussed the outlook beyond this winter. International gas prices remain high, and a return to pre-crisis price levels is unlikely in the near term, with the Bank of England forecasting gas prices over six times higher than their 2010-19 average until at least 2024. As you know, the contraction by 0.1% of the UK economy in the three months to June is largely being attributed to increasing energy and fuel prices, with no immediate change forecast for some time to come. The scale

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of ambition needed to tackle this trend must not be underestimated. We are, therefore also calling on Government and the next Prime Minister to:

- Establish a **high-level energy expert panel** tasked with tackling high retail energy prices for both domestic and non-domestic consumers including a glide path for moving away from the deficit tariff arrangements we propose to help customers manage their energy costs through 2023. This panel should be tasked with evaluating and refining the options so that the new Government can act swiftly and with confidence in order to help keep energy affordable for consumers. To ensure the panel can start providing ideas, solutions and analysis that is actionable by the new Government, it should be established without delay by the current Government and backed by both campaigns.
- Consider setting up a **new, dedicated Department of Energy**. A new Department of Energy should be tasked with working across Government to prioritise an energy transition that delivers our ambitious Net Zero targets, as well as stimulate long term, economic growth. It should also lead on maintaining security of supply, modernising the power market, and attracting long term investment in clean domestic electricity generation. This must be accompanied by a plan to reform the retail energy market, improve the efficiency of homes and buildings across the UK and reduce demand across the energy system.

The crisis we are facing will impact every household and business in the UK as much as the COVID pandemic and constitutes a similar national emergency. Our recommendations will tackle the immediate crisis for households and urgently bring forward proposals to ensure long term reform as we move towards Net Zero.

We are happy to discuss these proposals at your earliest convenience.

Yours sincerely,



Dhara Vyas
Director of Advocacy and Programmes

cc Rt Hon Kwasi Kwarteng MP, Rt Hon Boris Johnson MP, Rt Hon Liz Truss MP, Rt Hon Rishi Sunak MP and Jonathan Brearley, Ofgem