

## Energy UK explains: January 2026 price cap

November 2025

### Key points

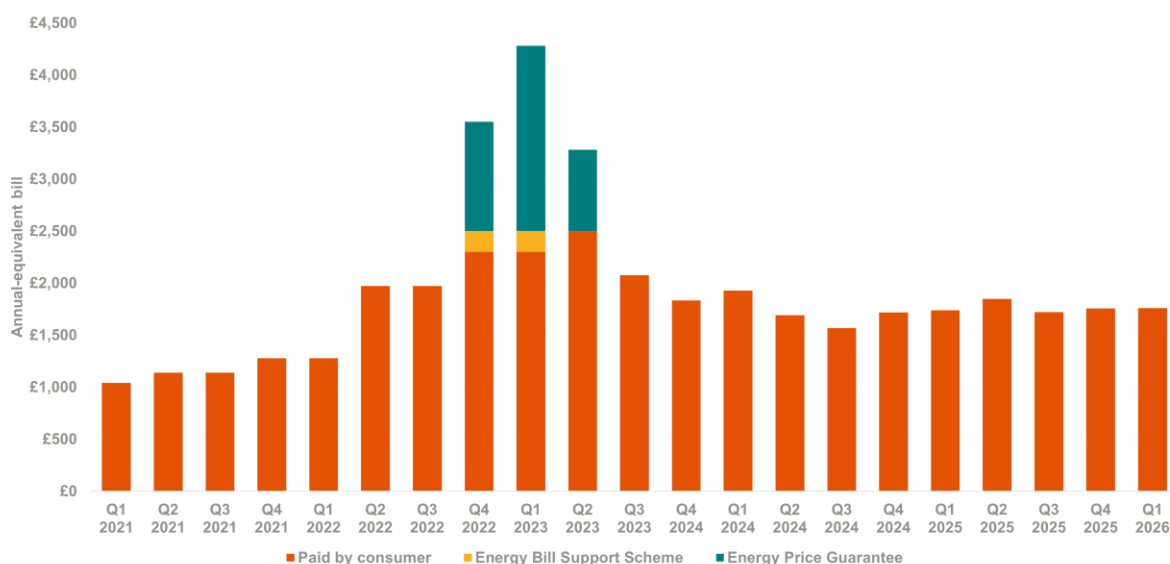
- Ofgem has set the price cap from 1 January 2026 at £1,758. This is for the typical dual-fuel (gas and electricity) household paying by Direct Debit.
- This is a 0.2% increase from the current level of £1,755 a year.
- While the price cap has come down since early 2023, it remains around 40% higher than before the energy crisis.
- While a large proportion of the price cap is set by the wholesale cost (which is largely determined by the price of gas), non-wholesale costs (such as policy, social or network costs) are contributing to an increasing share of the bill.
- These non-wholesale costs pay for things like upgrades to the grid, energy efficiency for vulnerable households, and also support for renewable energy.
- While necessary, the Government must consider where these costs fall and urgent intervention is needed to move some of these costs off the bill and into general taxation.
- The Government is correct that the long-term solution to reducing exposure to international gas prices is to build more clean British power, along with electrifying demand.
- However, it will be several years before the clean power transition starts to reduce bills. With record levels of households in debt and fuel poverty, Energy UK is calling on the Government to urgently bring down bills in the near term and there are [several ways to do this](#).

### What has happened this price cap?

- After a period of volatility, gas prices have been relatively stable recently, meaning the wholesale cost element of the bill has gone down slightly (4%) over the past three months.
- Gas prices remain highly exposed to global events, however, so it is important to continue the drive to build more clean British power.
- There are a number of changes to the way the price cap is calculated being implemented in January that cause the slight rise.
- These include charges for the Nuclear Regulated Asset Base (RAB), a funding method that will support the development of Sizewell C, a new nuclear power station in Suffolk, able to provide electricity for six million homes when built. Other changes include a small increase in the amount charged during the first quarter of 2026 for the expansion of Warm Home Discount (WHD).

## Why is the price cap remaining so high?

- In the UK, the wholesale price of gas continues to predominantly set the price of electricity. This is because energy prices are set by the last generator needed to meet demand, typically a gas plant.
- Despite the slight decrease from the previous quarter, the wholesale cost of gas also remains higher than the long-term average before the crisis.<sup>1</sup>
- While the wholesale price makes up a significant proportion of an energy bill, a growing area of concern is the ‘non-wholesale’ component, which is what has contributed to the slight rise for this price cap.
- This includes costs for essential upgrades to the grid, support for renewable energy, energy efficiency for vulnerable households, and many other things.
- These additional costs need to be paid for, but recouping them through bills is regressive. Energy UK is urging the Government to bring down bills by moving some of them off the energy bill and onto general taxation, which is a fairer and more progressive way to split these essential costs.
- Energy debt is at a record high with around £4.5 billion owed to retail suppliers.<sup>2</sup> The price cap includes a debt allowance for suppliers to be able to recoup some of this, so they can operate sustainably. For the price cap covering October-December 2025, the typical household is paying over £50 to cover debt allowances from other customers.
- Burdensome and, in some cases, ineffective regulation across the energy sector is also adding to energy bills.<sup>3</sup>



**Figure 1: Price cap since 2021 (Source: Ofgem)**

<sup>1</sup> Energy UK analysis of gas prices

<sup>2</sup> [Ofgem \(2025\); Debt and arrears indicator](#)

<sup>3</sup> [Energy UK \(2025\); The future of energy regulation](#)

### Why does the UK have higher energy prices than other countries?

- Although other economies also rely on gas, the UK is particularly exposed.
- Gas plays a vital role in the country's energy system, across electricity generation, industrial needs, as well as home heating; providing the heat source for nearly three-quarters of UK homes, far higher than most other developed economies.<sup>4,5</sup>
- Until last year, gas was the largest source of electricity generation, which has since been overtaken by wind.<sup>6</sup> As the proportion of electricity generated by gas reduces, with more clean energy technology on the system, the wholesale cost of electricity should also reduce.
- This impact has already been seen; analysis by ECIU shows that growth in British renewables is cutting electricity prices by up to a quarter.<sup>7</sup>
- Successive Governments have also used the energy bill to spread the cost for some of the additional policy, environmental or social costs as mentioned above, compared to other countries, which have funded some things through general taxation.

### Why is the Warm Home Discount adding to bills?

- In 2025, the Warm Home Discount (WHD) was expanded to all households in receipt of means-tested benefits. As a result, an additional 2.7 million households are expected to receive the £150 energy bill discount, bringing the total to an estimated 6.1 million households.<sup>8</sup>
- While this increase in support will help many vulnerable households, the WHD is paid for through all households' energy bills. The expansion of the scheme is adding nearly £40 to the typical annual bill.<sup>9</sup>
- Although supporting more people is welcome, it is not a viable long-term solution. The Government, energy regulator Ofgem, the energy industry and charities need to continue working together to ensure well-targeted support is available for low-income and vulnerable households, and energy debt is reduced.<sup>10</sup>

### What can be done about energy bills?

- In the long run, building more clean British power will mean the country is less reliant on foreign fossil fuel markets and volatile prices.
- This is why the ambition of a clean power system is so important.
- People in Great Britain may also be paying for more than they need to, due to poor energy efficiency. The country's housing stock is draughty, with around

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<sup>4</sup> [Energy UK \(2024\), Fuelling the Future; Progressing the gas transition for Net Zero](#)

<sup>5</sup> [IEA \(2022\), Proportion of residential heating energy consumption by fuel source in selected countries, 2020](#)

<sup>6</sup> [NESO \(2024\), Britain's Electricity Explained: 2024 Review](#)

<sup>7</sup> [ECIU \(2025\); Growth in British renewables cutting electricity prices](#)

<sup>8</sup> [DESNZ \(2025\), Millions more families to get £150 off energy bills this winter](#)

<sup>9</sup> [Ofgem \(2025\), Energy price cap \(default tariff\) levels | Ofgem - Annex 4](#)

<sup>10</sup> [Ofgem \(2025\), Energy system cost allocation and recovery review](#)

50% of homes rated as below EPC C.<sup>11</sup> Improving energy efficiency and electrifying the economy would help to reduce bills permanently.

### And in the short term?

- National Energy Action estimates over six million households are in fuel poverty.<sup>12</sup>
- Households and businesses need more support. The record levels of debt are being driven by macro-economic conditions, as well as high energy bills.
- As a first step, [households](#) and [businesses](#) should always speak to their supplier if they're struggling.
- Energy UK is [calling on the Government to bring down bills](#) in the near term. This should include:
  - Move a proportion of environmental levies, which pay for legacy renewables schemes, from energy bills to general taxation to cut electricity costs for all households and support the adoption of low-carbon technologies, reducing exposure to volatile fossil fuel prices.
  - Progress data sharing efforts to enable the implementation of a better targeted support scheme using income, health and energy consumption data to provide sufficient help to those who need it most.
  - Fully fund the Warm Homes Plan, including schemes currently identified for funding through energy bills, to improve the energy efficiency of millions of homes across the country, permanently lowering their energy costs.
  - Ensure the smart meter rollout focuses on customer experience, complete the implementation of Market-Wide Half Hourly Settlement, and encourage demand flexibility to enable more households to receive cheap or free electricity when there is plenty of supply from the grid.

### About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs.

From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We provide a collective voice for the sector working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice.

Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

For more information contact [press@energy-uk.org.uk](mailto:press@energy-uk.org.uk).

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<sup>11</sup> [ONS \(2025\): Energy efficiency statistics](#)

<sup>12</sup> [National Energy Action \(2024\), Homepage](#)