Energy UK Explains: Are high prices being caused by energy company profits?

June 2026

Key points

- Energy is a diverse sector, with businesses servicing the production, transport, and supply of energy across the country.
- The recent spike in energy prices has been caused by the ongoing conflict in the Middle East, and has led to significant volatility in global energy markets.
- This volatility has direct impacts on how much we pay for both gas and electricity.
- There is a range of mechanisms in place across the energy system to prevent unreasonable profits, from standalone windfall taxes to regulatory price controls and price caps.
- While these mechanisms will help to protect customers, the UK remains highly dependent on international markets over which it has little control. Accelerating the transition to clean homegrown energy can ensure our long-term energy security and insulate us from international markets.

What do we mean by 'energy company'?

- The volatility of oil and gas markets in recent weeks has seen a focus on 'energy' in a very broad sense. The energy sector encompasses a wide range of services across production, transport and supply of both molecules and electrons.
- There is no single definition for an 'energy company' and businesses in the energy system can play a number of different roles.
- Various markets and types of businesses sit behind our energy bills:

Energy production

- Upstream oil and gas exploration and production
  - This is the extraction of oil and gas out of the ground. Energy UK does not represent these activities.
- Electricity generation
  - Our electricity is generated using a range of fuel types including gas, wind, solar, nuclear, tidal and biomass. We also import electricity from other countries via interconnectors.

Energy transportation

- Gas and electricity are transported across the country via a national network of pipes and wires.

- Long-distance networks are referred to as 'transmission', and local networks that take this gas and electricity to homes and businesses are called 'distribution'.

Retail energy supply

- Retail energy suppliers sell electricity and gas to homes, businesses and organisations across the country. They are responsible for sending bills and dealing with customer enquiries, in addition to the delivery of government schemes that include the Warm Home Discount.

Many companies operate internationally. It is common for energy companies to be active in more than one area of the market.

What sets the price we pay for energy?

Energy bills are made up of both wholesale costs (the actual cost of the gas or electricity) and non-commodity costs (other associated costs such as operating costs, tax, and policy costs). The exact proportions vary across household and business energy bills, but for most customers around 40% of their energy bill will reflect wholesale costs, and 60% will be non-commodity costs. Wholesale costs are inherently variable and represent fuel costs, while non-commodity costs are largely fixed and set by either the Government or Ofgem.

Wholesale costs

- **Gas for space heating and industrial use.** Natural gas is traded within Europe and internationally, and the price is set by market factors including supply and demand.
- **Wholesale electricity price.** This reflects the fuel costs underpinning electricity generation and is largely linked to the price of gas.

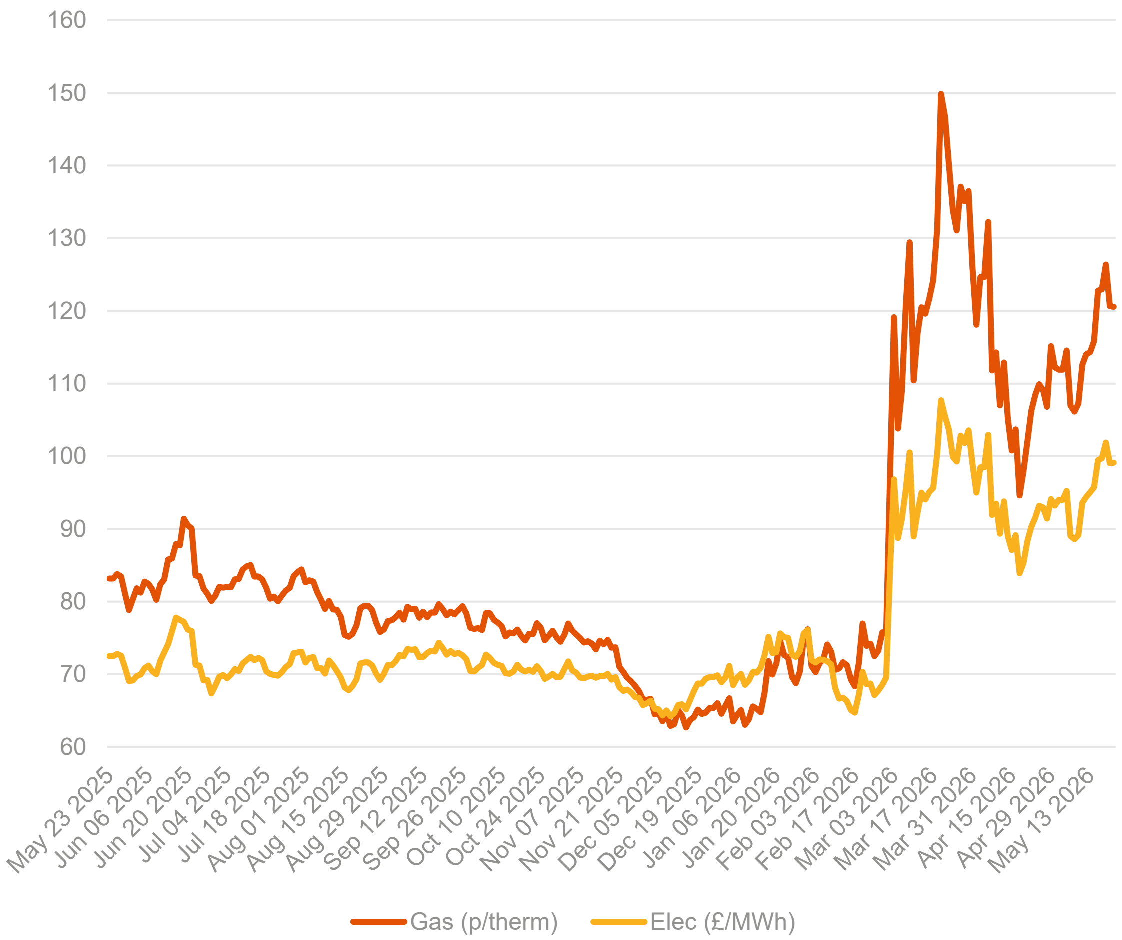
Non-commodity costs

- This part of the bill primarily reflects the fixed costs of infrastructure in the energy system such as network and system costs.
- It also includes policy costs, taxes, and supplier costs.

Why are energy bills increasing?

- The ongoing conflict in the Middle East, including the effective closure of the Strait of Hormuz and destruction of energy infrastructure in the Gulf, has driven increases in both oil and gas prices.
- 20% of global oil supplies and 20% of global liquid natural gas supplies pass through the Strait of Hormuz. International and regional markets for both oil and gas have seen significant price increases since the start of the conflict.

Figure 1: Gas and electricity prices since May 2025[1]



- At the time of publication, wholesale prices remain substantially above pre-conflict levels and continue to show significant volatility as markets grapple with uncertainty.
- These higher prices will feed through to energy bills, affecting both gas for space heating and industrial use, and the cost of electricity generation which is largely driven by gas prices.
- Household bills are set to rise by 13% from 1 July as a result of this volatility. Read more about the rise [in this briefing pack on our website.](#) It will also lead to cost increases for businesses that are on variable-rate contracts, or those with fixed-term contracts that are coming to an end.

[1] Source: UK NBP Natural Gas Futures Pricing

What mechanisms are in place to curtail energy company profits?

Companies across the energy sector – across production, transport, and supply – operate under different regulatory and market arrangements. The vast majority of the energy market is subject to either strict regulatory price controls, or standalone windfall taxes. These arrangements are designed to protect consumers from costs while ensuring the UK continues to attract the billions of pounds of private investment needed to build new energy infrastructure here, and ensure our future energy security. These arrangements include:

- **The Energy Profits Levy**. This tax on oil and gas production in the UK has been in place since 2022. Oil and gas extraction is subject to an effective combined tax rate of 75%.
- **The Electricity Generator Levy**. This tax on renewable and nuclear electricity generation in the UK has been in place since 2022. Electricity generators are subject to an additional 45% tax when the electricity price is higher than £75/MWh.
- **Contracts for Difference**. This revenue support mechanism for renewables provides a stable price for electricity, which is agreed through a competitive auction. Under this system, when wholesale prices are high generators pay money back to consumers. When they are low, the scheme provides support to maintain investment. This mechanism helped prevent big price increases; during the last gas price spike, electricity generators paid back £1.2bn to consumers.[2]
- **Network Price Controls**. Both electricity and gas networks are regulated through long-term price controls. The costs of investment underpinning this are agreed before the start of the five-year price control period, based on a decision by Ofgem.
- **The Energy Price Cap**. The price cap is set by Ofgem, and limits what energy suppliers can charge for the supply of electricity and gas to homes. From 1 July, this will increase by 13% directly as a result of ongoing volatility in wholesale gas markets caused by the war in the Middle East. Learn more about what makes up an energy bill.

Any profits accrued by UK companies operating abroad are not subject to our regulatory or windfall tax regime. It is a longstanding principle that UK companies operating abroad are subject to taxation in the relevant jurisdiction that they are operating in.[3]

Although global profits are often used in the media, it is important to note that profits from a UK registered company operating abroad will face taxation in the relevant country, and that only profits from UK operations – usually found in company accounts – are relevant to public discourse about the domestic fiscal situation in the UK.

The UK is home to many energy companies; some are listed on the London Stock Exchange and others operate privately. In supporting the ability of British companies to be successful internationally – success that underpins jobs, investment, and growth in the UK - conflating global and UK profits does little to attract the investment that can genuinely transform our economy.

For more information, please email MPSupport@energy-uk.org.uk.

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.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders.

We are equally committed to our team and are proud to be recognised as a 'Gold' Investors in People employer.

[2] CfD Historical Data - Low Carbon Contracts
[3] Whilst UK resident companies are charged corporation tax on global profits, this is offset against tax paid in the country they are operating in