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Energy Security and Net Zero Committee

The cost of energy

Third Report of Session 2026–27

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Energy Security and Net Zero Committee

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Summary

Even before events this year in the Persian Gulf, the United Kingdom already had amongst the highest industrial and domestic energy costs, particularly for electricity, among comparable countries. The UK Government's commitment to reducing energy bills is being made more difficult by the big global dynamics raising international fossil fuel prices, which not only determine the price of the fuels we use to drive our vehicles and heat our buildings, but also influence the price of our electricity here in the UK.

Our inquiry scrutinised the Government's efforts to tackle the various costs that make up our energy bills. We explored the wholesale costs associated with producing and generating energy, the costs of moving that energy along a network from where it is produced to where it is consumed, as well as the costs relating to levies and allowances allocated by the Government and the regulator, Ofgem.

The wholesale price of electricity is set most of the time by the volatile price of gas generation. We recommend the Government speed up its work addressing the role of gas in setting the price of electricity; and make better use of the tools it has at its disposal to bring down wholesale costs, from mechanisms like Contracts for Difference and Power Purchase Agreements through to interconnection and trade with our neighbours.

Investment in new network infrastructure is necessary, but passing through all those costs onto households and businesses is a big barrier to the broader benefits of moving away from fossil fuels. We recommend that the Government urgently considers how the energy system might be adapted to ensure the whole of the sector contributes to the cost of expanding and improving necessary electricity infrastructure. We also recommend the Government set out how data centres will impact its energy transition plans.

Reducing policy costs remains a critical means for substantially bringing down bills. We recommend that the Government move remaining policy costs from electricity to gas and assesses the feasibility of supporting separately through general taxation those users of gas who are least able to bear the resulting added cost. Furthermore, future policy costs must not be placed on billpayers.

Allowances for consumer debt are a growing part of bills. We recommend the Government and Ofgem match our earlier ambition on debt relief and secure a contribution from the networks towards reducing the consumer

energy debt burden. We also call on Ofgem to consider encouraging flexible payment options. Lastly, we recommend the Government identify where windfall profits are made in the energy system and use such excess to reduce bills.

Introduction

1. The cost of energy is currently at the top of many media bulletins due to the military action in the Persian Gulf which has resulted in the closure of the Strait of Hormuz to shipping, including the tankers carrying about 25 per cent of global seaborne oil trade and 20 per cent of the world's liquefied natural gas exports each year.[1] Since then there have been increases in oil and gas prices internationally[2] and, despite the transition to renewables, Great Britain is exposed to shocks to the fossil fuel industry,[3] with around three quarters of a typical household's driving and home energy bills coming from the direct use of fossil fuels in cars and gas boilers.[4]

2. The UK energy system was privatised in the 1980s to drive competitiveness and innovation and it eventually saw the transition of the UK from relying on coal and moving to natural gas, a cleaner fossil fuel but still a net contributor of carbon dioxide to the atmosphere.[5] The energy system built upon privatisation was optimised around the use of fossil fuels but the UK has since been in a transition to renewable power sources.[6]

3. Since the early 1990s the world has been working towards tackling the issue of climate change, a warming of the planet due to the increasing concentration of greenhouse gases in the atmosphere. The United Nations' Intergovernmental Panel on Climate Change (IPCC) has conducted one of the most extensive programmes of science to provide models that seek to determine what may happen to the climate if the world does not transition to low carbon sources of energy.[7] In the UK, that programme has driven government policy to incentivise the use of electrical sources of heating, electric vehicles and the use of renewable and sustainable sources of industrial heat and aviation fuels. This transition is not happening as quickly

1 IEA, "Strait of Hormuz, Factsheet", February 2026
2 Q603 [Jonathan Brearley]
3 Q607 [Fintan Slye]
4 CCC, "Progress in reducing emissions, 2026 report to Parliament", 24 June 2026
5 The Institution of Engineering and Technology, "UK Energy Policy 1980 - 2010: A history and lessons to be learnt", 2012
6 Department for Energy Security and Net Zero, "Clean Power 2030 Action Plan: A new era of clean electricity – main report", Updated 15 April 2025
7 IPCC, "Synthesis Report"

as the UK's Climate Change Committee (CCC) thinks necessary to hit the targets derived from the IPCC science[8] and, we have heard, one of the biggest barriers to transitioning is the cost of electricity.[9]

4. We have, in our Report titled *Tackling the energy cost crisis*, considered how the costs of electricity are experienced by both domestic and business consumers.[10] The Government has remained "absolutely committed" to cutting up to £300 from household energy bills by 2030 and has insisted that, if looking across 2025, bills were lower in real terms, i.e. after adjusting for inflation, than in 2024.[11] Even before events in the Persian Gulf, Great Britain already had amongst the highest industrial and domestic energy costs, particularly for electricity, among comparable countries.[12]

5. In this Report we look first at the costs of producing and generating energy. While the UK has its own sources of oil and gas, in the North Sea, Ofgem cautioned that it is very hard to see any change in North Sea production having a big impact on international prices. Ultimately, prices are set globally and depend on "big global dynamics", such as Russia's full-scale invasion of Ukraine or events in the Middle East.[13] We consider in this Report the wholesale costs of energy and their impact on electricity prices but will look more closely at fossil fuels in our inquiry, Managing the future of UK oil and gas.

6. The next substantive element in an energy bill is the costs of moving that energy from where it is produced to where it is consumed. These network costs are part of the "non-commodity costs" that have been the subject of many news stories over the past year and include the maintenance and expansion of the electricity grid necessary to facilitate the expected increase in electricity use. We examine how these costs are managed and where there may be some potential for the Government to reduce their impact on energy bills and the cost of electricity.

7. The other element within non-commodity costs are policy costs, the costs imposed by Government to fund a variety of additional activity, from energy efficiency measures on the demand side to incentivising the generation of renewable energy on the supply side. We heard some criticism of the Government using policy costs imposed on bills as a kind of shadow taxation

8 CCC, "The Seventh Carbon Budget", 26 February 2025
9 Q446 [Adam Bell]
10 Commons Energy Security and Net Zero Committee, "Tackling the energy cost crisis", HC 736, 29 October 2025
11 Hansard, "Energy Security and Net Zero", Vol 783, Col 134, 24 March 2026
12 Department for Energy Security and Net Zero, "Quarterly Energy Prices", 30 September 2025
13 Q605 [Jonathan Brearley]

with “no budgetary control” by the Treasury.[14] The Government accepts these policy costs are too high and we examine what it has done so far to relieve them and what it may do in the future.

8. Finally, we looked at consumer debt in the system and where profit is taken by a variety of operators. The level of debt has been growing and the supplier allowances for that debt increases the costs of every energy bill, potentially even pushing those in energy poverty deeper into debt.[15]

9. Since launching our terms of reference, we have received 87 pieces of written evidence from a variety of stakeholders. We held five oral evidence sessions from October 2025 to March 2026, where we questioned 24 witnesses, including the Minister for Energy. We are very grateful to everyone who has supported the inquiry and especially those who provided formal written submissions or attended oral evidence hearings.

14 Q282 [Rachel Fletcher]
15 Ofgem, “Debt and arrears indicators”

1 Wholesale costs

Recent international events and Government action

10. Price increases arising from events in the Persian Gulf do not impact immediately on electricity and gas retail consumers due to fixed tariffs and the price cap, unlike the experience of customers buying oil for heating or fuel for vehicles. Ofgem explained that energy companies buy forward, based on the price cap formula, rather than on the spot market (current prices).[16] Ofgem suggested that Great Britain's energy sector may be in a significantly stronger position than it was in 2021 and was confident that suppliers were more financially resilient, with a significantly lower risk of failure, and the price cap is more adaptable to changing market conditions than it used to be.[17] Michael Shanks MP, Minister for Energy, was similarly confident of the UK's fuel supply as the UK source's energy from a diverse supply chain rather than being overly dependent on Persian Gulf oil. While he noted that the Government currently had no concerns about fuel supply, he explained that the situation in the Middle East, through the uncertainty it brings, has an impact on price. He vowed that the Government will "fight the corner of consumers" and do everything it can to de-escalate the situation and provide support where needed.[18]

11. The Government initially announced support for users of heating oil,[19] then increased grants for heat pumps[20] and wrote to third-party intermediaries in the energy retail market setting out their expectations on how consumers should be supported during current energy price volatility.[21] Furthermore, the Government confirmed that contingency planning is taking place for every eventuality, to keep costs down more broadly while providing support

16 Q617 [Jonathan Brearley]
17 Q603 [Jonathan Brearley]
18 Q716 [Michael Shanks MP]
19 Department for Energy Security and Net Zero, "Consumer market for heating oil: letter to UK and Ireland Fuel Distributors Association", 9 March 2026 and HM Treasury and Northern Ireland Office, "Over £50 million to help families struggling with soaring heating oil costs", 16 March 2026
20 Department for Energy Security and Net Zero, "Decisive action to break influence of gas on electricity prices", 21 April 2026 and
21 Department for Energy Security and Net Zero, "Open letter to Third Party Intermediaries (TPIs): supporting consumers", 18 March 2026

for those who need it most.[22] The Minister insisted that recent events demonstrated the need to keep building an energy system that permanently protects consumers and will keep bills low in the future. He made the case that the drive to renewable energy generation is reducing the extent to which natural gas sets the wholesale price of electricity, which will ultimately reduce people's bills.[23]

Wholesale energy costs and the role of gas in electricity

12. Wholesale energy costs make up over a third of a typical consumer electricity bill and almost half of a typical consumer gas bill.[24] We heard how "savvy" suppliers purchase power and do long-term deals, "taking care of the complexity for us", since consumers do not "want to be buying electricity every half an hour or gas every day".[25] The wholesale price for gas is essentially the wholesale price that suppliers pay on the market. In contrast, the wholesale cost of electricity is more complex, the price paid for wholesale electricity on the spot market, where around two fifths of electricity is sold, is largely determined by the price of gas. Units of electricity are sold at the price of the most expensive unit needed to meet demand at a particular moment in time, known as pay-as-clear. In each half-hour trading period, each electricity generator bids the price it will accept to generate electricity, according to how expensive the electricity is to produce. The bids are accepted in merit order until the demand for electricity is met; the cheapest first, and the most expensive last. However, the price paid to all generators for all units of electricity is set according to the bid price of the most expensive unit needed to meet projected demand. As a result, although much electricity is produced using sources with low marginal costs, the price that is paid for electricity traded on the spot market is often higher, at the marginal cost of generating electricity with gas.[26]

13. Eventually the impacts of marginal pricing will be dampened, as more renewable generation comes on stream under Contracts for Difference (CfDs), which set a long-term price to be paid to generators in advance. Under CfDs, when marginal prices are high the generators pay back the excess and when they are low, the generators receive a top-up.[27] This is discussed in more detail later in the chapter. It was put to us, by Professor

22 Hansard, "Middle East: Economic Update", Vol 783, Col 155, 24 March 2026
23 Q719 [Michael Shanks MP]
24 NESTA, "What's in an energy bill"
25 Q406 [Tom Edwards]
26 CMA, "Energy market investigation - Final report", 24 June 2016
27 Q361 [Tom Edwards]

Grubb, Professor of Energy and Climate Change and Director of Centre for Net Zero Market Design, UCL, that marginal pricing is not best suited to a low carbon system that costs a lot to build but very little to run and that deeper structural changes to the electricity market will be necessary in future. We were also warned, by Tom Edwards, Principal Modeller, Cornwall Insight, that it may not be easy to see the benefits of such changes in the short term as most big, non-domestic consumers are on three-plus year contracts and even the price cap for domestic consumers takes into account prices over a two-year period.[28] It was explained to us that this two-year period is the reason why it took some time for consumer gas prices to eventually come down following the initial shock of Russia's full-scale invasion of Ukraine.[29]

14. Nonetheless, we explored structural changes which might reduce wholesale electricity prices. Research in 2025 suggested that, had there been a switch from a pay-as-clear to a pay-as-bid system, in which electricity generators are paid the price they bid rather than the marginal price, in 2023, consumers would have been £273 better off in nominal terms in 2025.[30] However, Tom Edwards argued that the pay-as-clear system has been "good at dispatch and getting bilateral contracts".[31]

15. Another structural change, outlined by Adam Bell, Director of Policy, Stonehaven, would be to remove gas plants from the wholesale electricity market and place them into a strategic reserve.[32] This would be through a Regulated Asset Base (RAB) system, like the nuclear power station Sizewell C,[33] although Professor Grubb argued that a RAB was not a strategic reserve, which in his view pays an asset to exist, not to operate in the day-to-day market.[34] Nevertheless, Adam Bell believed that taking gas-fired power plants out of the market would allow the rest of the generation fleet to discover prices without the inflationary element of gas-derived electricity.[35] He estimated that this system would cost about the same as the Capacity Market[36] but would bring down wholesale costs.[37] The

28 Q364 [Professor Michael Grubb and Tom Edwards]
29 Q371 [Tom Edwards]
30 National Institute of Economic and Social Research, "Macroeconomic Effects of 'Breaking the Link'", 19 November 2025
31 Q406 [Tom Edwards]
32 Greenpeace, "Removing gas-fired power stations from 'rigged' electricity market could lower energy bills by over £5bn a year, report finds", 4 September 2025
33 Department for Energy Security and Net Zero, "Sizewell C: Regulated Asset Base (RAB)", 22 July 2025
34 Q381 [Professor Michael Grubb]
35 Q422 [Adam Bell]
36 Qq423–424 [Adam Bell]
37 Q425 [Adam Bell]

Capacity Market, which is being reformed,[38] pays some companies to maintain capacity that can be activated during demand spikes and in early 2026 it made up £24, or about 2.5%, of a typical electricity bill.[39] Adam Bell claimed it could be implemented "reasonably promptly", to bring bills down by 2030[40] and while he conceded that it would be a "quite novel" solution, it was necessitated by the unprecedented problem of attempting to decarbonise the grid while maintaining security of supply and reducing costs for consumers.[41]

16. Ana Musat, Executive Director, Policy & Engagement, RenewableUK, contended that a strategic reserve would be "quite difficult to implement because it would effectively require central dispatch" and noted that centralised dispatch was already considered by the Government as too complex and too far of a departure from existing arrangements.[42] She cautioned that other technologies besides wind and solar might still set a high price.[43] She also pointed out that the returns under RAB might not be attractive enough for any new gas-fired power plants that may be needed in future.[44] We were reminded that a strategic reserve existed in 2017, the supplemental balancing reserve, which was used for old coal-fired power plants when the margin got very tight.[45] However, Professor Grubb argued that "the history of price controls within competitive markets is not a very happy history because Governments tended to try to get the price as low as possible and then people will not invest or you are asking companies to run at a loss, which they will not".[46] Susie Elks, Senior Policy Adviser, E3G, suggested that applying a windfall tax would be simpler than carrying out structural reforms.[47] The Government subsequently announced that the existing windfall tax on renewables not covered by CfDs, the Energy Generator Levy, will increase from 45% to 55% and will be extended past its scheduled conclusion in 2028.[48]

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38 Department for Energy Security and Net Zero, "Capacity Market: proposals to integrate low carbon technologies and enhance delivery assurance ahead of Prequalification 2026", 14 May 2026 and Department for Energy Security and Net Zero, "Capacity Market: proposed changes for Prequalification 2026", 14 May 2026

39 NESTA, "What's in an energy bill"

40 Q483 [Adam Bell]

41 Qq427–431 [Adam Bell]

42 Q432 and Qq434–35 [Ana Musat]

43 Q432 [Ana Musat]

44 Q433 [Ana Musat]

45 Q382 [Tom Edwards]

46 Q377 [Professor Michael Grubb]

47 Q382 [Susie Elks]

48 Hansard, "Electricity Generator Levy", HCWS1528, 21 April 2026

Review of Electricity Market Arrangements and Reformed National Pricing

17. Structural reform of the wholesale electricity market has been considered for some time and the previous Government launched the Review of Electricity Market Arrangements (REMA) in 2022.[49] However, in 2025, the Government rejected radical options for reform, opting instead to pursue Reformed National Pricing (RNP).[50] The details of RNP were published after we had taken evidence, but hold out the promise of eventually saving typical dual fuel households £20–40 annually by 2040, albeit mainly by tackling network rather than wholesale costs with a series of reforms to 2029 and beyond.[51]

18. Over the years there has been uncertainty as to what the outcome of the REMA would be, which Susie Elks felt could have been mitigated if decisions had been made upfront about what the grandfathering arrangements would be for assets, whatever the eventual outcome.[52] Professor Grubb sympathised with the Government's predicament, describing the decision as a "tough one". In his view, the Government "has ended up with as close to the status quo as you could possibly stay. Actual fundamental reform is very difficult in this energy system". He further argued that, "if you say you will not change it because it will take a long time you will never get there".[53] Tom Edwards added that "regulatory change process in the electricity industry is slow for good reason, because it is a multiparty contract".[54] In Adam Bell's view, the key reform in RNP is changing from trading electricity in half-hour periods to a shorter period, because it will allow for greater access for shorter, smaller flexible assets like batteries. However, he warned that "whether it will lower bills is still very much up for debate",[55] although Tom Glover, UK Country Chair, RWE, was more optimistic that a five-minute settlement window could do so.[56]

19. The European Union (EU) has been pursuing not dissimilar structural reforms.[57] In response to events in the Persian Gulf, the European Commission initially also set out further structural measures that could

49 Department for Energy Security and Net Zero, "Review of electricity market arrangements (REMA)"
50 Department for Energy Security and Net Zero, "Review of Electricity Market Arrangements (REMA) - REMA Summer Update", 10 July 2025
51 Department for Energy Security and Net Zero, "Reformed National Pricing (RNP): delivery plan", 21 April 2026
52 Q408 [Susie Elks]
53 Qq408–409 [Professor Michael Grubb]
54 Q411 [Tom Edwards]
55 Q420 [Adam Bell]
56 Q439 [Tom Glover]
57 European Commission, "Electricity market design"

be pursued to reduce wholesale energy costs,[58] as well as shorter-term support.[59] In 2022, for instance, Spain and Portugal introduced a cap on wholesale gas prices to reduce the cost of electricity, although apparently with mixed success.[60] Here in the UK, the Minister told us that RNP is not the limit of the Government's ambition.[61] The Government estimates gas is still setting the marginal price "far too often", at around 60% of the time, down from around 90% at the start of the decade,[62] and that this will come down to around 50% by 2030.[63] The Government insists they are trying to do everything they can to avoid gas setting the price, pointing to new nuclear, renewables and storage. The Government is also "really interested in looking at whether there are alternative ways of running" the marginal pricing system but argued that none of them are without complex trade-offs. The Minister explained that the previous Government had explored alternatives as part of REMA and discounted many of them, but that this Government is now looking at them again and working through the trade-offs. He stressed however that the best way to push gas off is to achieve the Clean Power by 2030 Mission, "where gas is there as a strategic reserve capacity in the system and not as the marginal price setter".[64]

Contracts for Difference

20. CfDs in the UK energy system are a private law contract between a developer and the government-owned Low Carbon Contracts Company (LCCC). This contract sets a "strike price" for each unit of electricity produced by a project for a set number of years. If the marginal price falls below a CfD's strike price the company is paid the difference. Conversely, if the marginal price rises above the strike price the company returns the additional funds to the LCCC. As a result, the CfD only acts as a subsidy when the marginal price falls below the strike price. From 2015 onwards, CfDs have been allocated via a competitive auction called the Allocation Round (AR).[65] Each AR has a budget set to cap the estimated cost of CfD, however, as a result, the volume of CfDs is limited[66] and so the AR, and

58 Politico, "Ursula Von Der Leyen Competitiveness letter to European Council", 16 March 2026

59 European Commission, "Commission proposes actions to protect Europeans from the fossil energy crisis", 22 April 2026

60 Energy Monitor, "The Iberian gas price cap: A success story?", 21 December 2022

61 Q745 [Michael Shanks MP]

62 Q724, Q726 and Qq731–732 [Michael Shanks MP and Jonathan Mills]

63 Hansard, "Clean Power", HCWS1530, 21 April 2026

64 Qq725–726 [Michael Shanks MP]

65 Department for Energy Security and Net Zero, "Contracts for Difference"

66 HMG, "The Contracts for Difference (Allocation) Regulations 2014 Contract Budget Notice for Allocation Round 7, 2025", 27 October 2025

budget, is split into "pots" for different categories of technology.[67] The terms of the CfD and the allocation process each saw significant reform in 2025. Among other things, historically CfDs covered a period of 15 years, however, future projects will now be allocated contracts for 20 years for offshore wind, onshore wind and solar.[68] We received written evidence in favour of this change,[69] with some indicating they would support expanding coverage to 25 or 30 years.[70] Previously CfDs have not been awarded for refurbishing existing assets. The latest round as we were taking evidence, AR7, included the offer for contracts for repowered onshore wind once they reach the end of their operating life (25 years).[71] However none were secured[72] and the repowering option was not included in the proposals for AR8.[73]

21. AR7 did, however, secure new offshore wind at an average of £90.91/MWh, new onshore wind at £72.24/MWh, and new solar at £65.23/MWh.[74] Tom Glover submitted to us in December 2025 that as long as prices for offshore wind are fixed below £94/MWh, the consumer benefits from locking in those prices over a longer period, comparing it to an insurance policy.[75] Adam Bell described CfD auctions in general as "one of the most impressive economic tools any UK Government have ever implemented".[76] Nonetheless, he cautioned that purchasing CfDs at "quite a high price" of over £90/MWh will risk disincentivising decarbonisation.[77] He pointed out that demand for electricity has been going down consistently for the last 20 years[78] and argued t will only go up if the price of electricity comes down.[79] The wholesale price was often higher than £90/MWh in the first month of events in the Persian Gulf.[80] The Department informed us that about 20%

67 HMG, "The Contracts for Difference (Allocation) Regulations 2014 Pot and Price Notice", 23 July 2025
68 Department for Energy Security and Net Zero, "Further reforms to the CfD scheme for AR7: government response to policy proposals", Updated 15 July 2025
69 For example, Energy UK (COE0048), Centrica plc (COE0062) and Aldersgate Group (COE0071)
70 For example, RWE (COE0069), Regen (COE0001), Nesta (COE0084)
71 Department for Energy Security and Net Zero, "CfD Allocation Round 7: Standard Terms and Conditions", 31 July 2025
72 Department for Energy Security and Net Zero, "Contracts for Difference (CfD) Allocation Round 7a: results", 10 February 2026
73 Department for Energy Security and Net Zero, "Proposed refinements for Allocation Round 8 and future rounds", 16 December 2025
74 Department for Energy Security and Net Zero, "Record breaking auction for offshore wind secured to take back control of Britain's energy", 14 January 2026 and Department for Energy Security and Net Zero, "New auction delivers unprecedented clean, homegrown power", 10 February 2026
75 Q442 [Tom Glover]
76 Q452 [Adam Bell]
77 Q447 [Adam Bell]
78 Q444 [Adam Bell]
79 Q446 [Adam Bell]
80 iamkate.com, "National Grid: Live"

of generation is now under CfDs and, since the new renewables that are coming are also under CfDs, the Government expect that to triple through the decade.[81] The Government subsequently announced that, subject to consultation, older renewables generators not on CfDs would in future be offered a new mechanism, the Wholesale CfD, to have their wholesale revenues fixed.[82] Under RNP the current approach to CfDs generally is not being reformed.[83]

Corporate Power Purchase Agreements

22. An alternative means of procuring electricity for some heavier users of energy can be via PPAs. These are a long-term agreement where a buyer, termed an "offtaker", purchases electricity from a specific generator under agreed terms. Corporate PPAs are typically used by large energy-intensive firms seeking predictable long-term prices. These agreements can either be virtual or involve physical delivery of actual electricity.[84] The UK is one of Europe's leading corporate PPA markets, typically ranking third after Spain and Germany[85] but we heard that there is a limit to PPAs because they are in direct competition with CfDs.[86] Moreover, Tom Glover argued that corporate customers also have the choice of buying on the spot market, which can be below the investment price for generators. Therefore, RWE provides PPAs off existing assets but will seek a CfD to get the investment price for new assets.[87] In some instances, the credit risk of strategic industrial users may be too high, so the Government would need to step in by underwriting such a PPA.[88] The Government has consulted on how to improve the market for Corporate PPAs[89] and in 2025 launched a new procurement framework to support the public sector in procuring PPAs.[90] SMEs may also benefit from underwriting of PPAs as without such backing, they can find it difficult to take advantage of them.

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81 Q726 [Jonathan Mills]

82 Department for Energy Security and Net Zero, "Decisive action to break influence of gas on electricity prices", 21 April 2026

83 Department for Energy Security and Net Zero, "Reformed National Pricing (RNP): delivery plan", 21 April 2026

84 Next Kraftwerke, "Power Purchase Agreement"

85 Wood Mackenzie, "European renewable PPA market sees 19GW of new capacity contracted in 2024", 15 April 2025

86 Q454 [Adam Bell]

87 Q455 [Tom Glover]

88 Q458 [Ana Musat] and Q461 [Tom Glover]

89 Department for Business and Trade and Department for Energy Security and Net Zero, "Government response to the Corporate Power Purchase Agreements call for evidence", Updated 7 July 2026

90 Crown Commercial Service, "Public sector funding will be channelled into UK renewable energy projects, boosting growth and driving investment in UK based renewable energy technology", 15 April 2025

23. Ana Musat suggested PPAs could be useful for data centre investment, green hydrogen producers and heat networks,[91] although Tom Glover cautioned that data centres so far have much smaller demand than an offshore wind farm offers and it can challenging to build private wires directly between power plants and demand.[92] We also heard there may be scope for PPAs on a smaller scale, which is already happening to a degree, although we were warned these pose problems of their own around the recovery of levies.[93] Ana Musat also suggested it would be worth exploring whether PPAs between constrained renewable generators, which are currently paid to cut back excess renewable generation, and public sector facilities, could reduce the costs to the network, and ultimately to consumers, of such constraints.[94] However, she cautioned that there would probably need to be some bundling of demand, by way of an intermediary, as a large generator would provide more than a school would need.[95]

Alternatives to gas in supply-side flexibility

24. The Government's Clean Power by 2030 goal is one where clean sources produce at least 95% of Great Britain's generation in a typical weather year. Some gas generation would therefore remain, providing supply-side flexibility in the form of dispatchable power.[96] Historically, most flexibility has come from the supply-side of the electricity system; by varying the amount of gas produced or imported, or by turning up or down electricity generation, such as gas turbines. There are however alternative sources of supply-side flexibility to natural gas in Great Britain, including biomass generation, interconnectors with other countries, large-scale electricity storage such as pumped hydro, various forms of batteries and, potentially, hydrogen.[97] These alternatives may, in future, reduce some of the role of gas in setting the price for generating electricity and witnesses generally agreed that a mix of generation was required, to avoid "putting all our eggs in one basket".[98] Dr Waqquas Bukhsh, Senior Lecturer at the University of Strathclyde, acknowledged that there was a limited risk that Great Britain might end up with too much supply-side flexibility, over-investment and stranded assets, but a greater one of not having enough.[99] The risk of not

91 Q456 [Ana Musat]
92 Q459 [Tom Glover]
93 Q462 [Tom Glover] and Qq463–464 [Adam Bell]
94 Q456 [Ana Musat]
95 Q457 [Ana Musat]
96 Department for Energy Security and Net Zero, "Clean Power 2030 Action Plan: A new era of clean electricity – main report", Updated 15 April 2025
97 NESO, "Introduction to energy system flexibility"
98 Qq496–7 [Katrina Young]; Q498 and Q508 [Lawrence Slade]; and Q501 [Dr Waqquas Bukhsh]
99 Q523 [Dr Waqquas Bukhsh]

building enough would be worse in his view than building too little, since costs will go up to satisfy any future increase in demand.[100] The Minister told us that, while batteries at a localised level are "really important", the UK was building its first long-duration energy storage, including pumped hydro, in 40 years, with more projects coming forward soon.[101]

25. We heard however of challenges to supply-side flexibility as the Government progresses towards a Clean Power grid. On the technical side, inertia (traditionally supplied by coal and gas) and spinning reserve (provided, for example, by the Drax biomass power plants) will need to be maintained to ensure stability of the power system. Consequently, even as the proportion of renewables has increased, NESO has at times chosen gas even when cheaper renewables have been available. NESO has been working to bring the cost of doing so down to about £50 million a year, but the need for inertia will remain for some years until innovative breakthroughs come through.[102] Another challenge is operational efficiency, namely to drive down skip rates (when batteries are passed over in favour of more expensive gas for flexibility). We heard that until recently NESO did not have capability to instruct large numbers of batteries, but that has since started to improve[103] and that NESO will, in future, publish the cost of skips and targets for reducing them.[104] Finally, we heard about the need to make sure that market mechanisms enable flexibility.[105] Ofgem, in 2024, designated Elexon as a single expert entity capable of delivering more accessible, transparent and co-ordinated flexibility markets,[106] which we heard could play a beneficial role.[107] Lawrence Slade, Chief Executive, Energy Networks Association, was confident that the Government have the policies in place to make sure that supply-side flexibility brings down bills in a newly electrified energy system. However, in his view, more clarity was needed about the different roles of the market participants, NESO, DESNZ, Ofgem, the Distribution Network Operators and Elexon.[108]

100 Qq526–532 [Dr Waqquas Bukhsh]
101 Q752 and Q795 [Michael Shanks MP]
102 Q499 and Q501 [Dr Waqquas Bukhsh]
103 Q517 and Q520 [Dr Waqquas Bukhsh]
104 Q569 [Sarah Honan]
105 Q517 [Dr Waqquas Bukhsh]
106 Ofgem, "Decision: Market facilitator delivery body", 29 July 2024
107 Q570 [Dr Alastair Martin]
108 Q540 [Lawrence Slade]

Interconnection with Europe and the shared resources of the North Sea

26. Interconnectors provide supply-side flexibility by helping the system to respond rapidly to changes in supply and demand, and balancing periods of higher or lower generation. They provided 13.3% of gross UK electricity supply in 2024 through imports and enabled the export of Great Britain's surplus renewable electricity. The Government aims for 12–14GW electricity interconnection by 2030 and the total 2025 installed capacity was 10.3GW.[109] More could be on the horizon, following the UK and EU agreeing to deliver major offshore wind projects in shared waters, including the possibility of offshore hybrid assets that combine offshore wind farm connections with electricity interconnectors.[110] In Great Britain, electricity interconnectors are regulated by a cap and floor regime.[111] These provide a minimum revenue floor to manage high capital costs and long build times, while the revenue cap "lowers costs" for consumers.[112] There are also several gas interconnectors between Great Britain and continental Europe, which typically import more gas in winter than in summer and allow Great Britain to benefit from gas storage facilities in continental Europe, offsetting the reduction in British gas storage levels.[113]

27. The status of energy relations with our neighbours has changed following the UK's exit from the EU and the resulting exit from the EU's Internal Energy Market, which, we heard, has led to higher costs.[114] The subsequent UK-EU Trade and Co-operation Agreement has provisions on energy co-operation, which were, in 2025, renewed until March 2027[115] with a view to

109 Department for Energy Security and Net Zero, Ofgem and NESO, "Clean Flexibility Roadmap", 23 July 2025

110 Department for Energy Security and Net Zero, Ofgem and NESO, "UK and Europe sign historic pact to drive clean energy future", 26 January 2026

111 Department for Energy Security and Net Zero, Ofgem and NESO, "Clean Flexibility Roadmap", 23 July 2025

112 Ofgem, "Long Duration Electricity Storage (LDES) window 1 eligibility assessment outcome"

113 NESO, "Introduction to energy system flexibility"

114 Q391 [Professor Michael Grubb]

115 Eur-Lex, "Decision No 2/2025 of the Partnership Council established by the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part of 19 June 2025 issuing an interpretation of Article 331(2) and extending the application of Part Two, Heading One, Title VIII on energy, of the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part [2025/1230]"

extending the provisions annually thereafter.[116] However, there has been no further agreement on electricity, linking emissions trading schemes or general exemption for the UK from the EU Carbon Border Adjustment Mechanism (CBAM).[117] We heard, on our visit to Brussels in November 2025, that intervention "at the highest level" is needed to break the impasse in UK-EU negotiations over energy. Subsequently, the UK and the European Commission concluded exploratory talks on the UK's participation in the EU's Internal Electricity Market,[118] with negotiations on an Electricity Agreement to follow.[119] They agreed there should be no CBAM costs levied on UK electricity exports. Negotiations to link the UK and EU's carbon markets are also under way, with the aim of saving UK goods exports from EU CBAM charges.[120] Professor Grubb believed that linking the UK and EU emissions trading schemes is "quite a lot" easier than integrating with the EU's electricity market and therefore, he wasn't holding his breath on negotiations over the latter.[121]

28. The Minister told us that more efficient electricity trading would benefit both the UK and Europe and help to bring down bills,[122] although Katrina Young, Practice Manager for Heat Policy and Local Energy, Energy Systems Catapult, warned us that without transparency through wholesale market reform, any efficiency gains would not be guaranteed to be passed on to consumers.[123] We heard, on our visit to France in November 2025, of concerns that cross-border electricity trading has led to higher prices there. While witnesses agreed that Great Britian currently benefits in lower priced electricity prices from both France and Norway,[124] much of the French nuclear fleet will start to retire soon and they may become net importers from the UK.[125] Great Britain is forecast to be a net exporter to its neighbours from around the 2030s[126] and witnesses related potential indirect benefits to greater interconnection. Susie Elks suggested "the more renewables you have in the system the more you want to be interconnected

116 HMG, "Joint Declaration 1/2025 of the Union and the United Kingdom in the Partnership Council established by the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part of 19 June 2025"

117 European Commission, "CBAM successfully entered into force on 1 January 2026",14 January 2026

118 HMG, "UK-EU - Joint Statement", 22 December 20205

119 HMG, "Outcome of the exploratory discussions on the possible participation of the United Kingdom in the European Union's internal electricity market", 22 December 2026

120 Hansard, "UK-EU Common Understanding Negotiations", Vol 777, Col 945, 17 December 2025

121 Q393 [Professor Michael Grubb]

122 Q784 and Q785 [Michael Shanks MP]

123 Q510 [Katrina Young]

124 Q392 [Tom Edwards]

125 Q393 [Tom Edwards]

126 Q512 [Dr Waqquas Bukhsh]

to different countries".[127] Lawrence Slade submitted that faster deployment of renewable power could address the concerns that were put to us on our visit to Brussels over the threat Russia could pose to Great Britain's liquefied natural gas imports.[128] However, Dr Bukhsh cautioned that more and larger interconnectors will necessitate having more batteries, spinning reserve and other forms of flexibility within the system, which will add to the cost of energy.[129] Nonetheless, even under current electricity trading arrangements, National Grid have suggested that, over the last two years, interconnectors have provided a net benefit to consumers of over £1.65 billion.[130]

29. The North Sea not only provides a common basin to develop offshore wind and trade in electricity and gas from a variety of sources with our neighbours, but it is also the site of oil and gas resources. The Minister told us that the North Sea is, and will continue to be, a "hugely important" asset for the UK, but it is also a "super-mature" basin that has been in decline for more than two decades. The UK has been a net importer for 20 years and the consensus is that this will continue to be the case in the future. The Minister did not believe that the UK's future lay in fossil fuels and that, even if new licences in the North Sea were issued, "all the evidence points to that having only a marginal impact on the actual oil and gas that comes into the UK".[131] He added that "even if it did come from the North Sea, we pay the internationally set price. We are a price taker, not a price maker".[132] We will examine this further in our inquiry, Managing the future of UK oil and gas.

30. **CONCLUSION**
The wholesale price of electricity is set most of the time by the price of gas generation and it is clear we will still need gas for some time to generate some of our electricity. Yet, as a net importer of gas, the UK is vulnerable to changes in international prices of gas, which is used for electricity as well as heating and other applications.

31. **CONCLUSION**
The Government estimates gas will still set the price half the time in 2030, but its current reforms and voluntary offers will be insufficient to break the link between wholesale gas and electricity prices.

127 Q393 [Susie Elks]
128 Q490 [Lawrence Slade]
129 Q515 [Dr Waqquas Bukhsh]
130 Q504 [Katrina Young]
131 Q721 [Michael Shanks MP]
132 Q722 [Michael Shanks MP]

32. **RECOMMENDATION**
The Government must speed up its work on re-examining options to address the role of gas setting the price out of proportion to its share of electricity generation, such as switching from pay-as-clear to pay-as-bid on marginal pricing, or placing gas generating assets under a Regulated Asset Base or strategic reserve. It should publish the outcome of this work before end of 2026.

33. **CONCLUSION**
We consider there was a missed opportunity in Contracts for Difference (CfDs) not covering the refurbishing of existing renewable assets and that greater facilitation of Power Purchase Agreements, including through government underwriting would help many business users of electricity.

34. **RECOMMENDATION**
The Government must bring about repowering reform to encourage the refurbishment of existing renewable assets at the next CfD Allocation Round.

35. **RECOMMENDATION**
As a matter of priority, the Government should identify which heavy public sector users may benefit from PPAs and accelerate work on improving the market for Corporate PPAs, including addressing credit risks for business users and providing government underwriting.

36. **RECOMMENDATION**
Furthermore, there is an immediate need to improve the capacity of interconnectors and we recommend that the Government should secure the removal of barriers to efficient cross-border trading by Winter 2026.

2 Network costs

The projected rise in network costs

37. Prior to events in the Persian Gulf, we had heard that non-commodity costs (network and policy costs) were increasing as a share of bills[133] and that they might increase to such an extent by 2030 that if the wholesale price was zero, "bills would still be the same as they are today".[134] This was in contrast to the CCC that indicated that a typical household energy bill (excluding driving) will be around £940 per year by 2050, compared to around £1,650 in 2025, although this is predicated on the installation of heat pumps and improvements in home energy efficiency.[135] NESO modelling suggests that total energy costs, non-commodity as well as commodity, could move from about today's equivalent of 10% of GDP to approximately 5–6% of GDP by 2050.[136] The problem appears to be in the short term as investments need to be made in rolling out additional network and building new generation and battery infrastructure. The Minister told us that the "absolute No. 1 priority" of the Government is to tackle the affordability crisis and that Ofgem "have taken very seriously" the direction from Government that they should use "every single power they have" to bear down on the cost of energy.[137]

Controlling the costs of investing in the network

38. Once generated, gas and electricity are transported through transmission and distribution networks[138] and, because customers cannot switch their local network provider, these operate as regional monopolies regulated by Ofgem.[139] Generators pay to use the network to transport their electricity supply to where it is needed, and directly connected consumers and suppliers pay to use the network to meet their electricity demand. For

133 Q276 [Rachel Fletcher]
134 Q279 [Chris Norbury]
135 CCC, "The Seventh Carbon Budget", 26 February 2025
136 Q632 [Claire Dykta]
137 Q757 [Michael Shanks MP]
138 Commons Library, "Introduction to the domestic energy market", 31 October 2025
139 Nesta, "What are distribution network operators (DNOs), and how are their roles changing?", 12 December 2025

the average bill payer, network costs are passed through by suppliers.[140] Network costs make up around between 20–25% of typical electricity and bills but vary by region to reflect the fact that building and maintaining these networks is more expensive in some areas than others. There are three charges associated with the networks.

- Transmission charges pay for installing and maintaining the pylons and pipelines which carry electricity and gas over long distances, from power plants to local distribution networks.
- Distribution charges cover the costs of local distribution networks which deliver gas and electricity directly to homes.
- Balancing services charges, which only apply to electricity bills, cover the costs of making sure electricity supply meets demand at any given time.[141]

39. Ofgem is responsible for price regulation, under a system called RIIO and described by the Minister as helping consumers by incentivising innovation and building as fast as possible.[142] Under RIIO (Revenue = Incentives + Innovation + Outputs), Ofgem establishes a baseline "allowed revenue" for each network company for a given price control period. Incentives are designed to reward or penalise performance against a series of targets. Innovation provides mechanisms to fund innovation for both network operators and third parties working within the networks.[143] RIIO defines a set of outputs that network companies must deliver to justify their allowed revenue. If a company underspends against Ofgem's allowances, it keeps a share of the saving; if it overspends, it can recover only part of the excess, with the rest absorbed by the company.[144]

40. Ofgem told us that, by and large, the performance of the industry on RIIO-2, the last period, has been very good, with reliability extremely strong.[145] For RIIO-3, covering 2026–2031,[146] Ofgem estimates that, for a median household, the transmission component of network charges could increase by around £108 by 2031 but that this investment was expected to mitigate rising constraint and wholesale costs and potentially save around £80 in the

140 National Grid, "Electricity Transmission network charging - An introductory guide", January 2018
141 NESTA, "What's in an energy bill"
142 Q751 [Michael Shanks MP]
143 Ofgem, "RIIO - a new way to regulate energy networks", 4 October 2010
144 Lords Industry and Regulators Committee, Report, "The net zero transformation: delivery, regulation and the consumer", HL Paper 162, 4 March 2022
145 Q637 [Akshay Kaul]
146 Ofgem, "RIIO-3 Final Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors", 4 December 2025

same time.[147] Ofgem took full responsibility for ensuring that the amounts allowed onto bills reflect efficient delivery of infrastructure.[148] The Minister told us that RIIO-3 has squeezed out

> every possible additional bit of profit that can be made by those companies to ensure that consumers are the winners from that, while at the same time also ensuring that we are investing in the system we need for the future.[149]

The Minister argued that the Government was taking a "really active role" in delivering projects from the centre "as much as possible"[150] and insisted that the Government was "not a passenger in this; we drive forward those projects", pointing to almost weekly meetings with the transmission owners.[151] He insisted that the Government wants to build the least possible amount of grid to get the clean power they believe is needed[152] and he and Ofgem both argued that strategically planning the network, as NESO is doing, will also help to keep costs at an efficient level.[153] RNP aims to reform policy levers to help deliver this strategic planning.[154]

41. We heard various arguments about the extent of the need for investment in a grid that will be different from the one envisaged at the time of privatisation at the end of the 1980s.[155] The Minister argued that moving to a Clean Power grid can't be achieved "without building the things that get electricity to homes and businesses"[156] and that facilitating the roll out of renewables will reduce the need to pay for gas.[157] Additionally, as Ofgem pointed out, the decline in electricity demand between 2005–2025 is now reversing,[158] and the Minister argued that future electricity demand needs to be met,[159] although we heard from Rachel Fletcher, Director of Regulation and Economics, Octopus Energy that there is "massive" uncertainty about how quickly demand will increase.[160] Ana Musat noted that, even if there was no increase in demand, investment is needed to modernise networks

147 Ofgem, "RIIO-3 Final Determinations – Impact Assessment", 4 December 2025
148 Q638 [Jonathan Brearley] and Q733 [Michael Shanks MP]
149 Q720 [Michael Shanks MP]
150 Q733 [Michael Shanks MP]
151 Q751 [Michael Shanks MP]
152 Q735 [Michael Shanks MP]
153 Q626 [Jonathan Brearley]
154 Department for Energy Security and Net Zero, "Reformed National Pricing (RNP): delivery plan", 21 April 2026
155 Q659 [Claire Dykta]
156 Q729 and Q733 [Michael Shanks MP]
157 Q727 [Michael Shanks MP]
158 Q624 [Akshay Kaul]
159 Q729 [Michael Shanks MP]
160 Q316 [Rachel Fletcher]

as some assets are out of date and need replacing.[161] She also argued that Great Britain has, in the past, failed to invest in the grid in tandem with new generation[162] perhaps because of a reluctance to add to consumer bills.[163] The Minister suggested that the previous Government built a "sizeable amount of renewables [...] but they did not build the grid that connected it all" and there was a lack of strategic planning, so projects were not efficiently sited.[164] Ofgem noted that a lot of generation is being built offshore and that power needs to be brought to cities, otherwise constraint costs to balance the system will continue to rise.[165]

42. The benefits of this investment may take some time to "significantly" accrue,[166] perhaps 2030 to 2035.[167] Ana Musat described it as "unfortunate" that the need to invest in networks is happening at the same time as constraint costs are set to peak, but avoiding this expenditure now will only increase costs later on.[168] Nonetheless, Rachel Feltcher argued that network costs should not be being paid for in advance when it is unclear that that network is going to be needed or will be delivered efficiently.[169] It could be possible to spread the costs over a longer period of time, potentially avoiding the conflation of investment and high constraints,[170] as the timelines for infrastructure investment can be around 50 years.[171] Ofgem noted that network costs are essentially paid for consumers over 45 years and that they are open to alternative mechanisms.[172]

Transmission and distribution costs

43. Transmission Network Use of System (TNUoS) charges pay for installing and maintaining the pylons and pipelines which carry electricity and gas over long distances, from power plants to local distribution networks.[173] As wholesale prices are set nationally, TNUoS costs are the primary locational signal within the UK wholesale market for siting assets.[174] The TNUoS cost for the average domestic household is forecast to be £51.30 for 2025–26 (5.8%

161 Q480 [Ana Musat]
162 Q436 [Ana Musat]
163 Q438 [Ana Musat]
164 Q728 [Michael Shanks MP]
165 Q624 [Akshay Kaul]
166 Q438 [Ana Musat]
167 Qq483–485 [Tom Glover]
168 Q480 and Q485 [Ana Musat]
169 Q317 [Rachel Fletcher]
170 Q480 and Q485 [Ana Musat]
171 Q488 [Lawrence Slade]
172 Q625 [Akshay Kaul and Jonathan Brearley]
173 NESTA, "What's in an energy bill"
174 Department for Energy Security and Net Zero, "Review of Electricity Market Arrangements (REMA) - REMA Summer Update", 10 July 2025

of the average annual electricity consumer bill)[175] which is forecast to double for 2026–27 and be higher still by 2030–31.[176] While NESO told us there is little variability around their five-year view of transmission costs,[177] licensed energy operators are obliged to operate in an economic and efficient manner[178] and Ofgem told us that, by design, RNP and strategic planning are intended to put downward pressure on TNUoS charges.[179]

44. Distribution Use of System (DUoS) charges cover the costs of local distribution networks which deliver gas and electricity directly to homes[180] which includes maintaining and upgrading the infrastructure, and losses in physically transporting the energy though the wires, which are passed to consumers.[181] The substantial regional variation in electricity standing charges is due to variations in distribution charges,[182] that comprise a fixed daily charge and a unit rate charge. The unit rate charge varies between three different tariffs depending on whether electricity is consumed at peak, off-peak or shoulder periods.[183] In the Q1 2026 price cap, average distribution costs were £46 per year on standing charges and £69 in total on unit costs for a household with typical annual consumption. These costs varied substantially across the different energy supply regions; from £18 to £98 per year on standing charges and from £41 to £102 on unit costs. Averaged out, the component of network costs for distribution (12.2% of a typical bill) exceeded that for transmission (5.4%).[184]

45. The next price control for electricity distribution, ED3, running from 2028 to 2033, is set to be approved by the end of 2027.[185] Ofgem told us that ED3 is unlikely to be at the same scale of increase being seen in the transmission sector. This is because there is more time to get ahead of demand, whereas the transmission sector is trying to catch up with renewable generation.[186] The "trick" in designing the price control will be to make sure investment matches regional plans and allowing companies to be adaptable to the location and rate of demand.[187] In the longer term, the National Infrastructure Commission estimated a total of £37-£50billion could be required in distribution network investment up to 2050, although it argued

175 NESO, "Final TNUoS Tariffs for 2025/26", 31 January 2025
176 NESO, "Five-Year View of TNUoS Tariffs for 2026/27- 2030/31", 18 September 2025
177 Q658 [Claire Dykta]
178 Q660 [Claire Dykta]
179 Q666 [Jonathan Brearley]
180 NESTA, "What's in an energy bill"
181 Commons Library, "Introduction to the domestic energy market", 31 October 2025
182 Commons Library, "Energy standing charges", 3 March 2026
183 Drax, "Third Party Costs Explained: DUoS", 1 April 2025
184 Ofgem, "Energy price cap (default tariff) levels"
185 Ofgem, "Ofgem sets rules for 2028 to 2033 grid investment to meet growing electricity demand", 21 May 2026
186 Q640 [Akshay Kaul] and Q642 [Jonathan Brearley]
187 Q644 [Jonathan Brearley]

that maximising consumer led flexibility could reduce this by around 15%.[188] Ofgem told us that because this investment would be smoothed out over 45 years, it would take "a lot to move the bill impact of network charges materially". A rate of expenditure in the distribution grid going up by 10% or 20% would have a very small effect of about £1 or a couple of pounds per year extra on the household bill. There would still be an increase in distribution costs, but a lot lower than what will be spent on transmission over a shorter period of time.[189]

Balancing costs

46. Balancing costs are those incurred, through the Balancing Mechanism (BM), balancing services and energy trading, by NESO in their activities to maintain the stability of the electricity system.[190] The BM is a continuous online auction where companies bid or offer to change the amount of energy they generate or consume within 30-minute intervals.[191] Balancing services are purchased by NESO, separate to the BM, and include procuring services that help manage the network's voltage and frequency, encourage demand-side flexibility and ensure that the network has sufficient reserve capacity to enable NESO to balance it.[192] Energy trading refers to NESO's ability to trade with energy market participants outside of the BM to balance the system where there is a "foreseen energy requirement" and manage system constraints.[193] Balancing costs are recovered by NESO via Balancing System Use of Service (BSUoS) charges, which also include administrative costs.[194] They contributed 5% to the Q1 2026 price cap for a typical household (compared to 5.4% for transmission and a 12.2% average for distribution and are levied on unit prices based on forecast balancing costs from NESO. There is some regional variation in these costs linked to electricity losses rather than NESO's charges.[195]

47. Balancing costs more than doubled to £2.7 billion between 2019–20 and 2024–25, with the largest component being thermal constraint costs, which increased to £1.7 billion.[196] When the parts of the network do not have the capacity to move all of the electricity generated to where it is needed, then NESO needs to switch off, or curtail, effectively renewable generation where

188 National Infrastructure Commission, "Electricity distribution networks: Creating capacity for the future", 21 February 2025
189 Q641 [Akshay Kaul and Jonathan Brearley]
190 NESO, "Balancing costs"
191 NESO, "What is the Balancing Mechanism? "
192 NESO, "Transmission constraint management"
193 NESO, "Trading"
194 NESO, "Balancing Services Use of System (BSUoS) charges"
195 Ofgem, "Energy price cap (default tariff) levels"
196 NESO, "2025 Annual Balancing Costs Report", June 2025

it is in excess and to switch on, more expensive, effectively gas generation closer to the demand and outside the "thermal grid constraint".[197] NESO says thermal constraint costs could increase to around £8 billion by 2030, although this could be halved if "critical network projects are brought forward and delays to plans for wider network expansion are avoided".[198] NESO told us that the main driver of thermal constraint costs is the need to move electricity from new renewables generation in the north of the country to the centres of demand in the south-east[199] and, currently, solutions like batteries do not meet the scale of the challenge.[200] NESO suggested that these costs could come back to around £2 billion after 2030 and fluctuate as generation facilities and network are continuously built.[201] However, in an efficient grid, there will always be some constraint[202] and other elements that make up balancing costs are also necessary.[203]

48. We heard an efficient level of constraint is the level at which it is cheaper to manage the constraint than to build new network.[204] NESO are consulting on reducing the cost of running the system in real-time, by reforming balancing and settlement arrangements.[205] NESO told us that, in the shorter term, new technologies in the control room and on transmission lines will help to manage the system more economically, while better strategic planning and network delivery will, in the longer-term, reduce constraints.[206] Under RNP, the Government is considering additional reforms to improve how the volume and cost of constraints are managed.[207] The Minster told us that thermal constraint costs are "far too high" and that while they don't have a target, they want to get them as low as possible.[208] We did hear a suggestion from Adam Bell that, as a function of trading in the system, constraint costs are an externality and should, therefore, not be paid by consumers on their bills.[209] NESO put to us that where these costs are borne is a decision for the Government but it would not stop those costs being

197 NESO, "Transmission constraint management"
198 NESO, "2025 Annual Balancing Costs Report", June 2025
199 Q646 [Fintan Slye]
200 Q715 [Fintan Slye]
201 Qq649–650 [Fintan Slye]
202 Qq652–653 [Fintan Slye]
203 Q654 [Fintan Slye] and Q656 [Claire Dykta]
204 Q656 [Akshay Kaul]
205 NESO, "Reformed National Pricing Balancing, Settlement and Dispatch: Call for Input", 11 February 2026
206 Q655 [Fintan Slye]
207 Department for Energy Security and Net Zero, "Reformed National Pricing (RNP): delivery plan", 21 April 2026
208 Q730 and Q741 [Michael Shanks MP]
209 Q483 [Adam Bell]

incurred.[210] Even if constraint costs were charged to generators that would simply increase the amount that they bid into the system, and ultimately consumers would pay.[211]

Connections reform

49. Connections reform was highlighted as one part of the solution to tackling constraint costs by Nick Winser, the Electricity Networks Commissioner in 2023.[212] In 2025, Ofgem published a reform package known as TM04+ to enable connections reform,[213] although later decided some projects will no longer be granted relief.[214] It also proposed stronger licence requirements, financial penalties and tougher enforcement to end unacceptable delays.[215] NESO has confirmed a new pipeline of deliverable projects that will be prioritised for connection to the electricity networks[216] which was subsequently updated.[217] Ofgem, which at the time was consulting on NESO's Business Plan,[218] told us it was confident in delivery of connections reform.[219] The Government and Ofgem in April 2026 set expectations "for a firm, coordinated response" on connections.[220] The Government also announced reforms to planning, land access and grid connection processes.[221]

50. The connections reforms were described as a "very complex process",[222] but "significant" and demonstrating Great Britain "can do bold things".[223] NESO accepted that there is frustration that the process has taken so long but explained that it is a "massive" change to the industry and to all the individual contracts, with the process set out in industry codes that have very strictly defined governance processes.[224] Ripping up contracts and

210 Q634 [Claire Dykta]
211 Q636 [Fintan Slye]
212 HMG, "Electricity Networks Commissioner: companion report findings and recommendations", June 2023
213 Ofgem, "Decision on Connections Reform Package (TM04+)", 15 April 2025
214 Ofgem, "Update on delays to connection dates for some TM04+ Protected Projects", 6 February 2026
215 Ofgem, "Connections end-to-end review: updated proposals and next steps", 8 December 2025
216 NESO, "Unveiling the new project pipeline to deliver Clean Power by 2030", 8 December 2025
217 NESO, "Connections reform timeline", 13 February 2026
218 Ofgem, "Determinations for NESO1 Business Plan", 10 February 2026
219 Q670 [Jonathan Brearley]
220 Department for Energy Security and Net Zero and Ofgem, "Open letter from DESNZ and Ofgem on connections reform delivery", 16 April 2026
221 Department for Energy Security and Net Zero and Ofgem, "Electricity network infrastructure: consents, land access and rights", 21 April 2026
222 Q558 [Lawrence Slade]
223 Q438 [Ana Musat]
224 Q671 [Fintan Slye]

changing the rules overnight would have had a "huge" impact on investor certainty.[225] NESO also told us it was not necessarily the case that delays in connections reform will adversely impact consumer costs.[226] We have also heard more recently that despite the reforms to the grid queues, connections are still delayed, although the Minister said the data showed that there has been a considerable improvement.[227]

51. We also explored the impact of data centres on the connections queue. Ofgem notes around 140 data centres have been identified, the majority of which are likely to receive an offer. That number of data centres represent a demand of 50GW of electricity, in comparison, peak electricity demand in Great Britain in the last 12 months has usually ranged from 25–40GW.[228] Ofgem told us that in those parts of the World where there has been an unplanned, uncontrolled increase in demand from data centres, it has pushed up the electricity prices for everybody. A more managed system, that ensures data centres provide some flexibility into the power system, could avoid a significantly negative effect on consumers.[229] NESO, which has been charged with looking into these matters in their strategic plan and their modelling,[230] added that locating them in the right place on the system can even be helpful.[231] The Government has said it will prioritise strategically important projects, including AI data centres and industrial sites, that can deliver growth and jobs.[232] The Minister acknowledged that there is a risk that, if they are not planned strategically, there are increased costs but insisted that the Government wants to be as strategic as possible about where they are placed.[233]

225 Q672 [Claire Dykta]
226 Q669 [Fintan Slye]
227 Commons Energy Security and Net Zero Committee, "Oral evidence: Reviewing the electricity market", 2 September 2026, Q339 [Michael Shanks MP]
228 Ofgem, "Demand connections reform", 13 March 2026 and iamkate.com, "National Grid: Live"
229 Q674 [Akshay Kaul]
230 Qq737–738 [Michael Shanks MP and Jonathan Mills]
231 Q674 [Fintan Slye]
232 Department for Energy Security and Net Zero, Department for Science, Innovation and Technology, Ofgem and National Energy System Operator, "Government to tackle speculative demand grid connection requests", 11 March 2026
233 Qq736–737 [Michael Shanks MP]

Flexibility and its role in offsetting the rise in network costs

52. NESO and Ofgem suggested that the rise in network costs could be offset through demand management, greater use of flexibility, as well as continued demand reduction through energy efficiency measures.[234] Flexibility can mean both storing excess renewable supply to offset generation and use and actually shifting when the demand occurs by consumers.[235] We heard that flexibility procured from the distribution networks has grown significantly since the programme started in 2015.[236] There are direct and indirect benefits to consumers of flexibility. Professor Jacopo Torriti, Professor of Energy Economics and Policy, University of Reading, explained that direct benefits are felt by those with, for instance, vehicle-to-grid chargers for electric vehicles (EVs).[237] Even non-flexible customers could see reduced bills through the indirect effects of flexibility in lower wholesale costs, lower balancing costs and less generation and network build-out.[238] As these indirect benefits could reach as high as £17 billion per year by 2050,[239] demand-side, or consumer-led, flexibility could have a "huge" role to play.[240] The Minister told us that flexibility is the future for consumers.[241]

53. To realise the potential benefits, it was suggested that, by 2050, we could need about 75GW of consumer-led flexibility, which is over twice today's installed gas capacity.[242] This could come from demand turn-up, matching energy when it is available and avoiding having constrained renewables,[243] or from reducing peak demand, such as through EV charging[244] and the automation of heat pumps and electric heating.[245] Hydrogen from electrolysis could also play a "niche" role,[246] since it can act as "time-shifted electricity from wind farms".[247] Dr Alastair Martin, Chief Strategy Officer,

234 Qq629–631 [Claire Dykta] and Q638 [Jonathan Brearley]
235 NESO, "Introduction to energy system flexibility"
236 Q487 and Q537 [Lawrence Slade]
237 Q569 [Professor Jacopo Torriti]
238 Q568 [Sarah Honan]
239 Q540 and Q550 [Lawrence Slade]
240 Q532 [Dr Waqquas Bukhsh]
241 Q753 [Michael Shanks MP]
242 Q562 [Sarah Honan]
243 Q562 [Professor Jacopo Torriti]
244 Q521 [Dr Waqquas Bukhsh]; Q592 [Professor Jacopo Torriti]; Q591 and Qq595–596 [Dr Alastair Martin]
245 Q579 [Professor Jacopo Torriti]
246 Q597 [Professor Jacopo Torriti]
247 Q598 [Dr Alastair Martin]

Flexitricity, also highlighted the importance of the ability to take part in grid system events, such as remotely pausing devices for a few minutes to help stabilise the grid.[248]

54. We heard, however, of challenges to the delivery of demand-side flexibility. Firstly, it was put to us that flexibility is complicated by having inputs of varying scale and the tensions between national policy versus a more locally focused one.[249] Also, while tariffs are offered by retailers for those with flexibility assets,[250] and can encourage people to adjust behaviour to access cheaper prices, they are insufficient on their own when it comes to the big variable loads on the system.[251] Another barrier raised by witnesses is that automation, such as of heat pumps, EVs and domestic batteries,[252] needs smart-metering[253] and is held back by a lack of interoperability standards.[254] Most EV chargers are already programmed not to consume at peak times and there will be new regulations mandating automation for new heat appliances.[255] The Minister told us the Government wants to see much better use of smart systems and access to smart data[256] and it is expected that interoperability from all smart devices will be mandated in future.[257] Some industrial and commercial users have seen reductions in policy costs[258] but those who have not lack a financial incentive to decarbonise,[259] and this is exacerbated because the electricity industry does not understand those consumers.[260] Finally, it was suggested that balancing markets were not made to embrace flexibility, and that NESO needs to look for innovative ways of lowering balancing costs.[261]

55. Witnesses did concede that there have been improvements from DESNZ, Ofgem and NESO when it comes to flexibility, but argued further effort is required.[262] They also told us that if there is sufficient consistency and economic incentives for flexibility then consumers will choose to be involved.[263] Ofgem put to us that flexibility should be automatic and simple and, at least in the starting period, largely voluntary and should

248 Q563 [Dr Alastair Martin]
249 Qq601–602 [Sarah Honan]
250 Q580 [Professor Jacopo Torriti]
251 Q563 [Dr Alastair Martin]
252 Q536 [Dr Waqquas Bukhsh] and Q574 [Dr Alastair Martin]
253 Q547 [Lawrence Slade]
254 Qq534–546 [Katrina Young]
255 Q564 [Sarah Honan]
256 Q752 [Michael Shanks MP]
257 Qq572–573 [Sarah Honan]
258 Q582 [Dr Alastair Martin]
259 Q583 [Sarah Honan]
260 Qq565–567 [Dr Alastair Martin]
261 Q576 [Sarah Honan]
262 Q565 [Sarah Honan] and Q567 [Dr Alastair Martin]
263 Q562 [Dr Alastair Martin]; Q534 [Dr Waqquas Bukhsh] and Q571 [Sarah Honan]

not penalise people that cannot take it up, but reward those who can.[264] It also suggested that the incentives Ofgem is putting in place for flexibility, alongside the longer-term spatial planning framework will encourage suppliers and consumers to take it up,[265] while NESO told us that it has already been investing in their systems and is in the transition to full digitisation of their services.[266] After we took evidence, the Government announced it was working towards smoother adoption of plug-in solar panels, launched a trial to enable suppliers and flexibility service providers to offer users in areas with constrained renewable generation discounted electricity during those periods,[267] and set out a framework with Ofgem for energy digitalisation.[268]

Paying for network costs

56. In our Report, *Tackling the energy cost crisis*, we recommended that Ofgem should consult on how increased network costs could be allocated more broadly across the energy system rather than simply landing on consumer energy bills.[269] Ofgem consulted, in 2025, on whether there are fairer and more efficient ways to allocate and recover energy system costs from consumers and aimed to consult on policy options in Spring 2026.[270] Sarah Honan, Head of ADE: Demand, told us that "customers want to feel like they have some control over what they are paying for"[271] and pointed out that while there are lots of options on the table for Ofgem to investigate, these do not necessarily delve into "how to lower those costs fundamentally wherever they sit".[272] Ofgem told us that, at this stage, it is not proposing to mandate retailers to offer tariffs with no standing charges[273] but has begun a one-year, lower standing charge tariff pilot,[274] which will allow them to learn how suppliers communicate and make it clear to customers what suppliers believe is in the interests of the customer.[275] There is a "big question" about how customers will understand the tariff, how they will

264 Q711 [Akshay Kaul]
265 Q643 [Akshay Kaul]
266 Q691 [Claire Dykta]
267 Department for Energy Security and Net Zero and Ministry of Housing, Communities and Local Government, "Government to make 'plug-in solar' available within months", 24 March 2026
268 Department for Energy Security and Net Zero and Ofgem, "Energy digitalisation framework: a vision for a coordinated and connected energy system", 23 March 2026
269 Commons Energy Security and Net Zero Committee, "Tackling the energy cost crisis", HC 736, 29 October 2025
270 Ofgem, "Energy system cost allocation and recovery review", 10 December 2025
271 Q578 [Sarah Honan]
272 Q577 [Sarah Honan]
273 Q710 [Akshay Kaul]
274 Ofgem, "Lower standing charge tariffs: next steps", 25 February 2026
275 Q678 [Jonathan Brearley]

respond and what they will do if they are able to discover they are on the wrong tariff.[276] The Minister told us that while it "absolutely makes sense" to tie most of the costs to the actual energy used, there is a risk that some of the most vulnerable would pay even more through that system.[277]

57. Our previous Report also recommended Ofgem should exempt customers from having to pay the gas standing charge if they convert their home to electrical heating and no longer otherwise need a gas service.[278] Ofgem told us in oral evidence that while getting disconnected from the gas network would remove gas standing charges from a household energy bill, many do not pursue disconnection as the process seems complicated and the costs are high. Perversely, if a household does not draw gas from the network, the network company will eventually come and seal off the gas connection (effectively a disconnection) to mitigate the risk of an unobserved leak. In the latter case the costs are socialised to all other consumers. Ofgem told us they would come out with some policy proposals on disconnection in Spring 2026.[279]

58. **CONCLUSION**
With electricity demand rising after years of decline and much existing infrastructure ageing, new infrastructure will be needed with concomitant costs. The energy transition needs a grid that can accommodate more distributed generation but, which by design, will experience higher constraints. The pace of connections reform is crucial if billpayers are to see the benefits of the Clean Power Mission by 2030 to offset these costs.

59. **RECOMMENDATION**
The Government should publish a policy statement by the end of 2026 on how it intends to meet the energy demands of existing and planned data centres, stating how this will impact its energy transition plans.

276 Q679 [Jonathan Brearley]
277 Q770 [Michael Shanks MP]
278 Commons Energy Security and Net Zero Committee, "Tackling the energy cost crisis", HC 736, 29 October 2025
279 Qq680–683 [Akshay Kaul]

60. **CONCLUSION**
Demand-side, or consumer-led, flexibility is key to keeping the expected rise in investment in the distribution network reasonable. However, the regulatory frameworks and systems needed to facilitate that are not yet in place, nor is the necessary deployment of automation, interoperability and smart meters. We are concerned that relying on voluntary participation will not deliver the necessary change and that the Government is not focussing on the heaviest users who could make the biggest difference.

61. **CONCLUSION**
We recognise that work is currently being undertaken by Ofgem but it is clear that the transition will only happen at the necessary pace if the price of electricity is significantly decreased. The costs of network improvement are passed through to consumers, households as well as businesses, rather than being borne by generators and networks, although requiring generators and networks to bear additional costs risks the costs still being passed on to the consumer.

62. **RECOMMENDATION**
Relying on consumers to bear all of the costs of the energy transition is potentially the biggest barrier to achieving the Clean Power 2030 target and the broader benefits of moving away from fossil fuels. We recommend that the Government urgently considers how the system might be adapted to ensure the whole of the sector contributes to the cost of expanding and improving necessary electricity infrastructure.

3 Policy costs

63. During the course of our inquiry, policy costs roughly halved as a result of the decisions announced in the Autumn Statement 2025 and which took effect from April 2026. These addressed the Renewables Obligation (RO) and the Energy Company Obligation (ECO). There was also a small VAT saving as result of these measures.[280] The Government announced that £150 would be cut from household energy bills as a result, using an average per household figure, with the total costs divided by the number of households. But the price cap, which many commentators use to talk about domestic energy prices, refers to typical domestic consumption. The £150 reduction announced in Autumn 2025, if it used typical domestic consumption as a basis, was equivalent to £134 off the Q1 2026 price cap.[281] The Minister put to us that these decisions were "a really important recognition, from the Prime Minister down, that there are no actions the Government [is] not prepared to take to help to tackle the cost of living".[282] The Minister told us that the matter of where remaining policy costs should lie is being considered on a case-by-case basis.[283] He also said that "every penny in a bill should be scrutinised very carefully to understand the role that it plays in the bill and whether there is an alternative way of delivering that same policy".[284]

Government action on policy costs

64. The RO was designed to encourage the generation of electricity from renewable sources and closed to all new generating capacity on 1 April 2017, having been superseded by the CfD mechanism.[285] Eligible operators will continue to receive funds for 20 years from their accreditation date, meaning the scheme will remain active until 2037.[286] The cost of the RO had been the largest policy cost on consumer bills, although it is falling as the scheme winds down.[287] However, since the Autumn Statement 2025, the Government is now funding 75% of the domestic share of the RO for three

280 Ofgem, "Energy price cap explained" and HMT, "Budget 2025", 26 November 2025
281 HMT, "Budget 2025", 26 November 2025
282 Q794 [Michael Shanks MP]
283 Q765 [Michael Shanks MP]
284 Q719 [Michael Shanks MP]
285 Ofgem, "Renewables Obligation (RO)"
286 Ofgem, "Renewables Obligation (RO) Annual Report: Scheme Year 22 (April 2023 to March 2024)", 31 March 2025
287 Commons Library, "Energy bills and the price cap", 1 September 2022

years, from taxation, removing this part of costs from household bills.[288] The Minister told us that the Government will "obviously" review the cost of the RO on bills again when the three years have expired.[289]

65. We explored the extent to which the RO could be reformed or scrapped. It was pointed out to us that operators would expect any incentive to move onto CfDs to be more generous than the existing support.[290] We were also warned that breaking contracts would damage confidence in future Government schemes looking to secure private investment though it was suggested that a windfall tax could be applied.[291] The Government has sought to mitigate the costs of the RO by switching payments under the scheme from Retail Price Index to Consumer Price Index which could, at its peak in 2030, bring about savings in policy costs in the order of £270 million a year.[292] More recently, the Government announced that the existing windfall tax on renewables not covered by CfDs, the Energy Generator Levy, will increase from 45% to 55% and will be extended past its scheduled conclusion in 2028[293] and that, subject to consultation, older renewables generators not on CfDs would be offered a new mechanism, the Wholesale CfD, to have their wholesale revenues fixed.[294]

66. ECO was a government scheme, allocating grants towards energy efficiency measures through energy suppliers, to reduce bills, tackle fuel poverty and help reduce carbon emissions. The latest iteration, ECO4, was meant to run until 31 March 2026 and the costs were being recovered through energy bills as suppliers typically included the cost in unit rates.[295] In January 2025, DESNZ acted after the discovery of significant numbers of poor-quality solid wall insulation installed under ECO4 and the Great British Insulation Scheme (GBIS).[296] We recommended in our Report, *Retrofitting homes for net zero*, that ECO needed serious improvement.[297] In the Warm Homes Plan the Government stated it will work with industry to ensure that any poor-quality work attributed to ECO is put right, at no cost to the consumer.[298] The Government also extended ECO4 by 9 months, ending 31 December 2026, to

288 HMT, "Budget 2025", 26 November 2025
289 Q758 [Michael Shanks MP]
290 Q402 [Professor Michael Grubb]
291 Qq403–404 [Susie Elks]
292 Department for Energy Security and Net Zero, "Renewables Obligation (RO) scheme: indexation changes", 28 January 2026
293 Hansard, "Electricity Generator Levy", HCWS1528, 21 April 2026
294 Department for Energy Security and Net Zero, "Decisive action to break influence of gas on electricity prices", 21 April 2026
295 Ofgem, "Energy Company Obligation (ECO)"
296 Department for Energy Security and Net Zero, "Action taken to protect households with poor-quality insulation", 23 January 2025
297 Commons Energy Security and Net Zero Committee, "Retrofitting homes for net zero", HC453, 22 May 2025
298 Department for Energy Security and Net Zero, "Warm Homes Plan", 21 January 2026

allow suppliers time to meet existing targets and remediate non-compliant installations. £13.2 billion of funding to tackle fuel poverty was allocated in the Spending Review 2025 and the Warm Homes Plan included an additional £1.5 billion.[299] This funding directly supports home upgrades for those on low incomes and in fuel poverty, and provides grants and loans for homeowners to install heat pumps, solar panels and batteries.[300] We have heard calls for the introduction of a salary sacrifice scheme for the installation of solar, battery storage and heat pumps, similar to that used to boost EV adoption, with estimates of annual bill savings of £400 to £500 on average.[301]

Outstanding levies on consumers

67. There are other policy costs that remain on consumer bills: the Feed-in-Tariff (FiT), the Warm Home Discount (WHD), the Green Gas Levy and the Assistance for Areas of High Electricity Distribution Costs (AAHEDC) levy.[302] There is also a newer levy for nuclear, in the form of Regulated Asset Base (RAB) funding for Sizewell C.[303] The cost of the nuclear RAB was recently added to domestic bills and cost just over £13 a year for a typical household in Q2 2026.[304] Hinkley C and Sizewell B, by contrast, are on CfDs with a strike price of £89.50/MWh (2012 prices)[305] and £70.50/MWh (2025 prices),[306] respectively.

68. The FiT scheme supports smaller scale renewable generation, mainly domestic solar installations and closed to new applicants in 2019. The Government notes the scheme continues to play an important role in powering the country, supporting around 870,000 generators in Great Britain. FiT support lasts for between 10 and 25 years.[307] In the Q2 2026 price cap the FiT scheme added almost £21 to a typical household electricity bill. There is a small amount of regional variation in these costs linked to electricity losses.[308] The Government states that it recognises that legacy renewables form an integral part of the UK's generating fleet, and that a stable and predictable policy framework is critical to maintaining

299 HMT, "Budget 2025", 26 November 2025
300 Department for Energy Security and Net Zero, "Warm Homes Plan", 21 January 2026
301 Commons Energy Security and Net Zero Committee, "Oral evidence: Reviewing the electricity market", 2 September 2026, Qq297–298 [Michael Shanks MP]
302 NESTA, "What's in an energy bill"
303 Department for Energy Security and Net Zero, "Sizewell C: Regulated Asset Base (RAB)", 22 July 2025
304 Ofgem, "Energy price cap (default tariff) levels"
305 Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, "Hinkley Point C", 17 July 2018
306 Hansard, "Sizewell B: Contract for Difference", HCWS205, 9 July 2026
307 Department for Energy Security and Net Zero, "Changes to inflation indexation in the Feed-In Tariffs (FiT) scheme: government response", 28 January 2026
308 Ofgem, "Energy price cap (default tariff) levels"

investment appetite across the energy sector. Nonetheless, as with the RO, the Government switched from RPI to CPI -based indexation of FiT rates to deliver total scheme cost savings of approximately £600m (2024/25 prices) over the next ten years.[309] As with the RO, the Minister drew a distinction with breaking contracts altogether and the more limited changes to indexation, pointing to the balance being struck, recognising that "many of those" with FiT have had that revenue source for a long time, but appreciating that that was partly why they made those investment decisions in the first place.[310]

69. The WHD supports those on low-income and who are vulnerable to cold-related illness or living wholly or mainly in fuel poverty and came into effect in 2011. It now provides a £150 discount to around 6 million low income and vulnerable households,[311] with eligibility having been increased by 2.7 million in 2025.[312] In January 2026, the Government decided to continue the WHD scheme for a further five years to winter 2030–31.[313] In its response to our Report on tackling the energy cost crisis, the Government recognised that too much of the burden of energy bills is placed on standing charges and reiterated its manifesto pledge to work with Ofgem to bring them down.[314] Since April 2026, energy suppliers now recover WHD costs from the unit rate for electricity and gas,[315] although a £6.82 dual fuel cost allowance remains on standing charges until April 2027 to reflect the 2025 expansion in eligibility.[316] The Minister told us that the Government has not had any thoughts about where the WHD, specifically, might be funded in the future.[317]

70. The Green Gas Levy funds payments made for eligible biomethane injection into the gas grid through the Green Gas Support Scheme (GGSS).[318] This added almost £4 a year under the Q2 2026 price cap to a typical domestic gas bill via the gas standing charge. The costs will rise until 2028 as the scheme is expanding.[319] The commissioning window of the GGSS is expected

309 Department for Energy Security and Net Zero, "Changes to inflation indexation in the Feed-In Tariffs (FiT) scheme: government response", 28 January 2026
310 Q764 [Michael Shanks MP]
311 Ofgem, "Warm Home Discount (WHD)"
312 Department for Energy Security and Net Zero, "Millions more families to get £150 off energy bills this winter", 19 June 2025
313 Department for Energy Security and Net Zero, "Continuing the Warm Home Discount Scheme", 30 January 2026
314 Commons Energy Security and Net Zero Committee, "Tackling the energy cost crisis: Government Response", HC 1624, 21 January 2026
315 Department for Energy Security and Net Zero, "Warm Home Discount (WHD): cost recovery: Government Response", 12 February 2026
316 Ofgem, "Energy price cap (default tariff) levels"
317 Q769 [Michael Shanks MP]
318 Ofgem, "Green Gas Levy Guidance", 7 December 2023
319 NESTA, "Household energy bills include green levies. What are they and why do we need to pay them?"

to be extended from 31 March 2028 to 31 March 2030.[320] The Minister told us that there are a number of schemes that the Government are going to have to look at in terms of their sustainability as people move off gas. The Government is considering the medium and longer-term future of the gas network and what the individual costs for consumers are and how those are borne.[321] He argued that green gas is an important part of the future potential of the gas network.[322]

71. The AAHEDC is a socialised levy to help subsidise the high costs of distributing electricity in Northern Scotland. NESO recovers the assistance amount through a charge on all suppliers, which is passed on to Scottish Hydro Electric Power Distribution Ltd, replacing an earlier arrangement referred to as "Hydro Benefit".[323] AAHEDC is charged per unit of electricity. It added over a £1 a year under the Q2 2026 price cap to a typical domestic electricity bill.[324] The Total Scheme Amount for 2025–26 is £112.4m.[325] Cornwall Insight has forecast a gradual decline in the AAHEDC to 2030.[326] We asked the Minister whether the AAHEDC scheme could be a model for socialising other costs and, while he accepted that it could be a model for dealing with the declining number of people using the gas grid,[327] he pointed to existing plans for benefits to communities when it comes to socialising the high costs of distributing electricity from areas outside of Northern Scotland with high renewable generation.[328]

Outstanding levies on businesses

72. Businesses also pay levies as part of their energy bills, with charges that vary by sector and energy use. There are some exemptions for eligible sectors: the British Industry Supercharger gives a discount on 90% of network charges; the Energy Intensive Industries scheme (funded by the Network Charging Compensation scheme, adding about £3 to bills) grants 100% exemption from the costs of the CfD, RO, FiT and Capacity Market

320 Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy, "Green Gas Support Scheme (GGSS): open to applications", 10 December 2025
321 Q773 [Michael Shanks MP]
322 Q774 [Michael Shanks MP]
323 NESO, "Assistance for Areas with High Electricity Distribution Costs (AAHEDC)"
324 NESTA, "Household energy bills include green levies. What are they and why do we need to pay them?"
325 NESO, "Assistance for Areas with High Electricity Distribution Costs forecast tariff 2025/26", 15 July 2025
326 Cornwall Insight, "Non-Commodity Costs (Great Britain)"
327 Q776 [Michael Shanks MP]
328 Q777 [Michael Shanks MP]

(CM) schemes and the British Industrial Competitiveness Scheme will provide certain manufacturing businesses with exemptions from the cost of the RO, FiT and CM schemes from 2027.[329]

73. The Climate Change Levy (CCL) is a specific charge which only applies to non-domestic consumers[330] and is paid at "either, or both," the main levy rate and Carbon Price Support (CPS) rate. The levy rate varies and is charged per KWh for gas and electricity and per Kg for all other taxable commodities.[331] There are reduced rates for those in the climate change agreement scheme, voluntary agreements to reduce energy use and carbon dioxide emissions.[332] CPS, introduced in 2013 as an addition to the Emissions Trading Scheme (ETS), has indirect costs on both households and businesses because whenever gas sets the marginal price, all non-CfD generators get paid extra because of CPS.[333] There is compensation for the indirect costs of the UK and CPS for certain electricity intensive industries.[334] Susie Elks told us how CPS aimed to make sure that coal power stations ran less than gas power stations, but even though coal is now off the system CPS is still adding to the marginal price of electricity, adding about £10 to £20 per household. She argued it would be "much more" effective to remove it.[335] After we took evidence, the Government confirmed that CPS will be removed from April 2028.[336]

Other future policy costs

74. It was put to us by Rachel Fletcher that although "a lot of good stuff" is being funded through policy costs, they are adding incrementally to bills and there is "no budgetary control of this and yet it all ends up on

329 Department for Business and Trade, HM Treasury and Department for Energy Security and Net Zero, "Powering Britain's future: Electricity bills to be slashed for over 7,000 businesses in major industry shake-up", 22 June 2025 and Ofgem, "Introduction of a Network Charging Compensation (NCC) scheme allowance in the energy price cap decision", 25 February 2025; Department for Business and Trade and HM Treasury, "Government cuts electricity bill for 10,000 manufacturers in boost for UK competitiveness", 16 April 2026

330 NESTA, "Household energy bills include green levies. What are they and why do we need to pay them?"

331 HM Revenue & Customs, "Climate Change Levy rates", 27 November 2025

332 Environment Agency, "Climate change agreements", 2 March 2022

333 Department for Business and Trade and Department for Energy Security and Net Zero, "Compensation for the indirect costs of the UK ETS and the CPS mechanism: guidance for applicants", 17 December 2025

334 Department for Business and Trade and Department for Energy Security and Net Zero, "Compensation for the indirect costs of the UK ETS and the CPS mechanism: guidance for applicants", 17 December 2025

335 Q364 [Susie Elks]

336 Hansard, "Carbon Price Support", HCWS1519, 16 April 2026

household bills".[337] The Government has announced carbon capture and storage (CCS) will receive £21.7 billion over 25 years.[338] The Government told the Public Accounts Committee that about three quarters of that funding will come from levies and about a quarter from the Exchequer.[339] Separately, Drax Power Station, which signed a CfD from April 2027 to March 2031 with a strike price of £109.90/MWh (2012, real),[340] secured permission to fit carbon capture technology to two bioenergy units,[341] although it subsequently said it expects to commit limited resources to that endeavour.[342] By contrast, the Government has determined that Long Duration Energy Storage (LDES) projects will be supported by a cap and floor mechanism.[343] We heard that this may shift investor risk to consumers "without ensuring the assets are actually going to be operating when we need them to". The scheme risks locking in a future cost long-term.[344] Low Carbon Hydrogen Agreements are another form of support, which operate somewhat like a CfD, and assist hydrogen producers to overcome the operating cost gap between low carbon hydrogen and high carbon fuels.[345]

75. The Minister put to us that CCS, hydrogen and LDES are "really important" for meeting climate goals and keeping industry costs low[346] and that in many cases they have been funded from general taxation. The refreshed Hydrogen Strategy, which will be published "soon", looks at a mix of Exchequer and private sector funding.[347] Some of the costs of hydrogen projects on an ongoing basis are on bills, although the Minister pointed out that it is a very small amount. The costs of any eventual CCS power that generates electricity would be on bills.[348] The Minister suggested that, in future, less mature technologies such as floating offshore wind would likely be supported with CfDs rather than by replicating the RO scheme.[349]

337 Q282 [Rachel Fletcher]
338 Department for Energy Security and Net Zero, "UK carbon capture, usage and storage (CCUS)", 8 April 2025
339 Commons Public Accounts Committee, "Oral evidence: Carbon Capture, Usage and Storage", 12 December 2024
340 Drax Global, "Low-carbon dispatchable CfD contract agreement", 5 November 2025
341 Planning Inspectorate, "Drax Bioenergy with Carbon Capture and Storage Project - Project information"
342 Drax Global, "Annual Financial Report", 26 February 2026
343 Ofgem, "Long Duration Electricity Storage (LDES) window 1 eligibility assessment outcome"
344 Q519 [Katrina Young]
345 Department for Energy Security and Net Zero, "Hydrogen production business model", 19 December 2025
346 Q795 [Michael Shanks MP]
347 Q796 [Michael Shanks MP]
348 Q797 [Michael Shanks MP]
349 Q761 [Michael Shanks MP]

The balance of levies on electricity and gas

76. The balance between levies on bills and taxation varies across Europe.[350] On our visit to the Netherlands, one host described the UK placing levies on electricity rather than gas as "horrible". In its written evidence, NESTA noted that, using 2024 figures, over 80% of policy costs were added to electricity bills. It submitted that expensive electricity is a particular problem for households using direct electric heating, with those using resistive heating or storage heaters much worse off.[351] Chris O'Shea, CEO, Centrica, put to us that policy costs should be on general taxation, "because that is more progressive".[352] If not, then the "next best thing is that they are on electricity bills". However, he warned that as those who are better off will electrify first, moving these costs from electricity on to gas moves a subsidy from the poor to the rich and further distorts the market.[353] Andrew Ward, CEO, ScottishPower, added that it would be a mistake to impact high users of energy struggling to pay their bills.[354] The Minister told us the Government has "looked at rebalancing" and that the matter is one requiring periodic evaluation as the number of gas customers declines. The trade-off that the Government has been wrestling with is that there is a risk that, in rebalancing, the cost to consumers who cannot come off gas quickly enough would simply increase.[355] He also pointed out that the Warm Homes Plan aims to increase electrification as quickly as possible, which helps to bring down the number of people who rely on gas as a form of heating or cooking.[356]

77. We explored offering targeted support to the most vulnerable who would be left out by any changes in the balance of levies. The Minister told us that the Government would need to have some sense of who those people are and explained that the Department does not have access to the kind of data that would identify those individuals. It would be reliant on an applicant system, which adds complexity, and some of the most vulnerable are then less likely to apply. Nonetheless, the Government is working on how data can be shared much more easily to enable the designing of such schemes.[357] The Minister told us that there wasn't a principled objection to the Government using data to look at how it might target support more.[358]

350 Eurostat, "Electricity prices components for household consumers - annual data (from 2007 onwards)"
351 Nesta (COE0084)
352 Q283 [Chris O'Shea]
353 Q284 [Chris O'Shea]
354 Q285 [Andrew Ward]
355 Q786 [Michael Shanks MP]
356 Q788 [Michael Shanks MP]
357 Q773 [Michael Shanks MP]
358 Qq789–793 [Michael Shanks MP]

78. **CONCLUSION**
The Minister told us that "a pound here and a pound there" add up to "a significant amount". We agree. Policy costs are within the Government's direct control and significant action has already been taken to reduce them. With wholesale costs particularly volatile following events in the Persian Gulf and with network costs rising, the reduction of policy costs remains a critical means for substantially bringing down bills. Paying for policy costs through taxation rather than bills is also more progressive.

79. **CONCLUSION**
There are new potential policy costs on the horizon, which, if past practice is followed, may end up on bills. These, especially if they add to the standing charge, would exacerbate the problem of billpayers paying high costs of energy irrespective of how much energy they use.

80. **RECOMMENDATION**
The Government should move remaining policy costs from electricity to gas. It should publish an assessment of the feasibility of supporting separately through general taxation those users of gas who are least able to bear the added cost resulting from any levies moving across.

81. **RECOMMENDATION**
Future policy costs must not be placed on billpayers.

4 Other costs on energy bills

82. The remainder of consumer bills consists of VAT, as well as various energy supplier cost allowances. VAT is charged at 5% for domestic use (and 20% for most businesses, which most can reclaim), or £78 of a typical household bill under the price cap in Q2 2026.[359] In July 2026, Prime Minister Andy Burnham announced the removal of VAT from domestic electricity bills from October 2026.[360] Under the Q2 2026 price cap, the business costs of energy suppliers made up £275 (16.8%), profits £42 (2.6%), financial headroom for uncertain and unexpected expenses £16 (1%) and levelisation between prepayment and Direct Debit customers £9 (0.6%).[361] Ofgem's allowances for supplier business costs are made up of core operating costs, debt-related costs, industry charges, which cover various pass-through costs, and the Smart Meter Net Cost Change, which captures the ongoing change in operating costs resulting from the smart meter rollout.[362] Ofgem told us that within the price cap they have to identify reasonable and efficient costs and to make sure that those are fairly reflected.[363]

Increases in consumer debt

83. Debt has made up an increasing amount of supplier business costs. Ofgem suggested household energy debt stood at nearly £4.5 billion in early 2026,[364] although Energy UK argued it was around £5.5 billion if taking arrears at 30 days rather than 90.[365] Based on a submission from Citizens Advice that energy network companies had made £4 billion in excess returns

359 Ofgem, "Energy price cap explained"; NESTA, "What's in an energy bill"; Ofgem, "Changes to prepayment meter standing charges and other debt costs", 2 January 2024 and Energy UK, "Cutting Business Energy Costs: The case for action", 22 February 2026

360 Prime Minister's Office, 10 Downing Street, HM Treasury, Department for Energy Security and Net Zero, "New PM cuts tax on household electricity bills to give breathing space on cost of living", 21 July 2026

361 Ofgem, "Energy price cap explained" and Ofgem, "Changes to prepayment meter standing charges and other debt costs", 2 January 2024

362 Ofgem, "Energy price cap operating cost and debt allowances decision: overview", 23 May 2025

363 Q692 [Jonathan Brearley]

364 Ofgem, "Debt and arrears indicators"

365 Energy UK, "Energy debt: Everyone pays", 26 February 2026

since 2021, our last Report recommended an Energy Debt Relief Scheme for customers struggling with debts be funded by those profits,[366] although the Energy Networks Association later disputed those figures, stating that Citizens Advice was not looking at returns over the long term.[367] In late 2025, Ofgem consulted on a Debt Relief Scheme, Phase 1 of which was to be implemented in early 2026.[368]

84. Ofgem recognises that the level of debt is much higher than it has been historically and this is partly because the prices have been so high. They agreed that there is more to do on debt but did not think that removing the debt allowance is the way to tackle it, as they believe the economics of the company would not stack up and companies would go insolvent.[369] Ofgem put to us that three things are needed to bring down debt. Firstly, accurate billing and interacting with customers early when they get into payment difficulties. Secondly, Ofgem needs to work with industry more on how debt is collected. Thirdly, there is a need to bring in a Debt Relief Scheme like the one it has consulted on.[370] The Minister described the level of debt as "staggering" and "bad for everybody, but it is also bad for those worrying about whether they can put their heating on". He insisted the Government, with Ofgem, is doing what it can about debt and driving that work forward, "from day one". The Government wants to prevent customers having to build up debt in the first place and to make it as easy as possible to get out of it and pay it down.[371] The Minister also suggested that the Warm Homes Plan will reduce debt because it aims to make homes more affordable to heat, pointing out that "the cheapest energy is the energy you do not use at all".[372] The Department also highlighted the roles of the expanded Warm Home Discount and the Fuel Poverty Strategy.[373]

The impact of profit on energy bills

85. We attempted to establish the extent of profit that is reflected in energy bills. Ofgem's price cap has an allowance for Earnings Before Interest and Taxes (EBIT) for suppliers.[374] We heard few suppliers achieve that, because they tend to spend more on costs than Ofgem allows.[375] Ofgem also told

366 Commons Energy Security and Net Zero Committee, "Tackling the energy cost crisis", HC 736, 29 October 2025
367 Q552 [Lawrence Slade]
368 Ofgem, "Debt Relief Scheme: Statutory Consultation", 6 November 2025
369 Q697 and Q699 [Jonathan Brearley]
370 Q698 [Jonathan Brearley]
371 Q746 and Qq756–757 [Michael Shanks MP]
372 Q756 [Michael Shanks MP]
373 Q757 [Jonathan Mills]
374 Ofgem, "Price Cap - Decision on amending the methodology for setting the Earnings Before Interest and Tax (EBIT) allowance", 25 August 2023
375 Q318 [Chris O'Shea]

us that around £130 out of £400 of network costs on a typical bill under the then price cap would be operating profits.[376] However, this does not reflect profit from elsewhere in the energy system that ultimately feeds through to bills. Susie Elks pointed to a study comparing the profits of energy companies, including from energy trading, to the economy average, suggesting these came out at £500 of a household's energy bill.[377] Tom Glover did not accept that a price cap at £1,700 could deliver profits of £500 to the energy system and argued that there is no excess profitability in an average generation business.[378] Nor did Adam Bell believe "for a second that £500 of your bill is in profit",[379] although he acknowledged that there is no way of knowing how much it is.[380] It was pointed out that throughout the market there is visibility of what individual companies are making. Nonetheless, Adam Bell argued it would be very helpful to have more consistent figures.[381] The Energy Networks Association told us that Ofgem's target figure is around a 6% regulated return on equity[382] and that profits will come down over the coming years under Ofgem's price controls.[383] Ofgem told us it regularly publishes profit numbers for the retailers and the network companies, although to ease the regulatory burden, it no longer collects segmental accounts from generators. It was never responsible for the oil and gas sector.[384] They also pointed out that they are considering what kind of presentation and communication will be most useful for customers and suggested a bill with a lot of itemisation of detail can be quite confusing and overwhelming.[385]

86. Ofgem put to us that gas explorers and those who get the gas out of the ground are the ones making "the big profits", and that is not something that Ofgem regulates.[386] They added that any capital-intensive industry, like energy generation or energy networks, will always have a high operating profit margin, because they have to pay interest on the debt and pay back the equity capital that is going into their business, whereas a non-capital-intensive sector, like energy retail, will typically have quite low operating profit margins.[387] Ofgem was not confident that there will not in future be excess profits in the wider energy sector, because prices are going to be

376 Q702 [Akshay Kaul]
377 Q389 and Q401 [Susie Elks]
378 Q477 [Tom Glover]
379 Q478 [Adam Bell]
380 Q479 [Adam Bell]
381 Q480 [Adam Bell and Ana Musat] and Q481 [Tom Glover]
382 Q555 [Lawrence Slade]
383 Q553 [Lawrence Slade]
384 Q704 [Akshay Kaul]
385 Q708 [Akshay Kaul]
386 Q620 [Jonathan Brearley] and Q702 [Akshay Kaul]
387 Q702 [Akshay Kaul]

set outside the control of Ofgem and the UK Government.[388] The Minister told us that profits lie across the energy system and that the Government recognises that if there are going to be private operators, profit will be a factor. Asking for significant amounts of investment comes at a cost to organisations, with profit being a factor in them being able raise debt. The Government wants profit to be "as carefully managed as possible so that public money is not just lining the pockets of big companies".[389] The Minister conceded however that perhaps more is needed to explain the complexity of the system.[390]

87. **CONCLUSION**
Allowances for consumer debt are a growing part of bills under the price cap. We do not believe Ofgem's solutions are sufficient to meet the scale of the challenge, which not only immiserates those in debt, but burdens every billpayer, including those in fuel poverty, with a higher allowance passed through on their bills. This is compounded by the fact of billpayers not being given the information to know exactly what they are paying for.

88. **RECOMMENDATION**
Ofgem should consider encouraging the trial of flexible payment systems to prevent consumers getting in to debt.

89. **RECOMMENDATION**
The debt burden has increased since the Committee's last Report. Government and Ofgem must now match the Committee's earlier ambition on debt relief. The networks achieved higher than expected profits in RIIO-2 and the Government should seek to secure a contribution from the networks towards reducing the consumer energy debt burden.

90. **RECOMMENDATION**
The Government should empower Ofgem to require operators across the energy sector to provide clarity to the public on the constituent parts of their energy bills. The Government should identify where windfall profits are made in the energy system and use such excess to reduce bills.

388 Q706 [Jonathan Brearley]
389 Q743 and Q749 [Michael Shanks MP]
390 Q745 [Michael Shanks MP]

Conclusions and recommendations

Wholesale costs

1. The wholesale price of electricity is set most of the time by the price of gas generation and it is clear we will still need gas for some time to generate some of our electricity. Yet, as a net importer of gas, the UK is vulnerable to changes in international prices of gas, which is used for electricity as well as heating and other applications. (Conclusion, Paragraph 30)

2. The Government estimates gas will still set the price half the time in 2030, but its current reforms and voluntary offers will be insufficient to break the link between wholesale gas and electricity prices. (Conclusion, Paragraph 31)

3. The Government must speed up its work on re-examining options to address the role of gas setting the price out of proportion to its share of electricity generation, such as switching from pay-as-clear to pay-as-bid on marginal pricing, or placing gas generating assets under a Regulated Asset Base or strategic reserve. It should publish the outcome of this work before end of 2026. (Recommendation, Paragraph 32)

4. We consider there was a missed opportunity in Contracts for Difference (CfDs) not covering the refurbishing of existing renewable assets and that greater facilitation of Power Purchase Agreements, including through government underwriting would help many business users of electricity. (Conclusion, Paragraph 33)

5. The Government must bring about repowering reform to encourage the refurbishment of existing renewable assets at the next CfD Allocation Round. (Recommendation, Paragraph 34)

6. As a matter of priority, the Government should identify which heavy public sector users may benefit from PPAs and accelerate work on improving the market for Corporate PPAs, including addressing credit risks for business users and providing government underwriting. (Recommendation, Paragraph 35)

7. Furthermore, there is an immediate need to improve the capacity of interconnectors and we recommend that the Government should secure the removal of barriers to efficient cross-border trading by Winter 2026. (Recommendation, Paragraph 36)

Network costs

8. With electricity demand rising after years of decline and much existing infrastructure ageing, new infrastructure will be needed with concomitant costs. The energy transition needs a grid that can accommodate more distributed generation but, which by design, will experience higher constraints. The pace of connections reform is crucial if billpayers are to see the benefits of the Clean Power Mission by 2030 to offset these costs. (Conclusion, Paragraph 58)

9. The Government should publish a policy statement by the end of 2026 on how it intends to meet the energy demands of existing and planned data centres, stating how this will impact its energy transition plans. (Recommendation, Paragraph 59)

10. Demand-side, or consumer-led, flexibility is key to keeping the expected rise in investment in the distribution network reasonable. However, the regulatory frameworks and systems needed to facilitate that are not yet in place, nor is the necessary deployment of automation, interoperability and smart meters. We are concerned that relying on voluntary participation will not deliver the necessary change and that the Government is not focussing on the heaviest users who could make the biggest difference. (Conclusion, Paragraph 60)

11. We recognise that work is currently being undertaken by Ofgem but it is clear that the transition will only happen at the necessary pace if the price of electricity is significantly decreased. The costs of network improvement are passed through to consumers, households as well as businesses, rather than being borne by generators and networks, although requiring generators and networks to bear additional costs risks the costs still being passed on to the consumer. (Conclusion, Paragraph 61)

12. Relying on consumers to bear all of the costs of the energy transition is potentially the biggest barrier to achieving the Clean Power 2030 target and the broader benefits of moving away from fossil fuels. We recommend that the Government urgently considers how the system might be adapted to ensure the whole of the sector contributes to the cost of expanding and improving necessary electricity infrastructure. (Recommendation, Paragraph 62)

Policy costs

13. The Minister told us that "a pound here and a pound there" add up to "a significant amount". We agree. Policy costs are within the Government's direct control and significant action has already been taken to reduce them. With wholesale costs particularly volatile following events in the Persian Gulf and with network costs rising, the reduction of policy costs remains a critical means for substantially bringing down bills. Paying for policy costs through taxation rather than bills is also more progressive. (Conclusion, Paragraph 78)

14. There are new potential policy costs on the horizon, which, if past practice is followed, may end up on bills. These, especially if they add to the standing charge, would exacerbate the problem of billpayers paying high costs of energy irrespective of how much energy they use. (Conclusion, Paragraph 79)

15. The Government should move remaining policy costs from electricity to gas. It should publish an assessment of the feasibility of supporting separately through general taxation those users of gas who are least able to bear the added cost resulting from any levies moving across. (Recommendation, Paragraph 80)

16. Future policy costs must not be placed on billpayers. (Recommendation, Paragraph 81)

Other costs on energy bills

17. Allowances for consumer debt are a growing part of bills under the price cap. We do not believe Ofgem's solutions are sufficient to meet the scale of the challenge, which not only immiserates those in debt, but burdens every billpayer, including those in fuel poverty, with a higher allowance passed through on their bills. This is compounded by the fact of billpayers not being given the information to know exactly what they are paying for. (Conclusion, Paragraph 87)

18. Ofgem should consider encouraging the trial of flexible payment systems to prevent consumers getting in to debt. (Recommendation, Paragraph 88)

19. The debt burden has increased since the Committee's last Report. Government and Ofgem must now match the Committee's earlier ambition on debt relief. The networks achieved higher than expected profits in RIIO-2 and the Government should seek to secure a contribution from the networks towards reducing the consumer energy debt burden. (Recommendation, Paragraph 89)

20. The Government should empower Ofgem to require operators across the energy sector to provide clarity to the public on the constituent parts of their energy bills. The Government should identify where windfall profits are made in the energy system and use such excess to reduce bills. (Recommendation, Paragraph 90)

Formal minutes

Tuesday 13 October 2026

Members present

Bill Esterson (Chair)

Lizzi Collinge

Torcuil Crichton

Graeme Downie

Mike Reader

Claire Young

The cost of energy

Draft Report (*The cost of energy*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph. Paragraphs 1 to 90 read and agreed to.

Summary agreed to.

Title agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order 134.

Adjournment

Adjourned till Wednesday 14 October at 2.45pm.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 15 October 2025

David Buttress, CEO, OVO Energy; **Chris Norbury**, CEO, E.ON; **Chris O'Shea**, CEO, Centrica; **Simone Rossi**, CEO, EDF UK; **Andrew Ward**, CEO, Scottish Power Customer Business; **Rachel Fletcher**, Director of Regulation and Economics, Octopus Energy Q272–355

Wednesday 10 December 2025

Susie Elks, Senior Policy Advisor, E3G; **Tom Edwards**, Principal Modeller, Cornwall Insight; **Professor Michael Grubb**, Professor of Energy and Climate Change and Director of UCL Centre for Net Zero Market Design, UCL Q356–418

Ana Musat, Executive Director, Policy & Engagement, RenewableUK; **Tom Glover**, UK Country Chair, RWE; **Adam Bell**, Director of Policy, Stonehaven Q419–485

Wednesday 21 January 2026

Lawrence Slade, Chief Executive, Energy Networks Association; **Katrina Young**, Practice Manager for Heat Policy and Local Energy, Energy Systems Catapult; **Dr Waqquas Bukhsh**, Senior Lecturer, Department of Electronic and Electrical Engineering, University of Strathclyde Q486–560

Dr Alastair Martin, Chief Strategy Officer, Flexitricity; **Sarah Honan**, Head, ADE: Demand; **Professor Jacopo Torriti**, Professor of Energy Economics and Policy, University of Reading Q561–602

Wednesday 4 March 2026

Jonathan Brearley, Chief Executive, Ofgem; **Akshay Kaul**, Director General for Infrastructure, Ofgem; **Fintan Slye**, Chief Executive Officer, National Energy System Operator (NESO); **Claire Dykta**, Director of Strategy and Policy, National Energy System Operator (NESO) Q603–715

Tuesday 17 March 2026

Michael Shanks MP, Minister for Energy, Department for Energy Security and Net Zero; **Jonathan Mills CB**, Director General for Energy Markets and Supply, Department for Energy Security and Net Zero Q716–800

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

COE numbers are generated by the evidence processing system and so may not be complete.

1	38 Degrees	COE0020
2	Advice Direct Scotland	COE0034
3	AdviceUK	COE0028
4	Age UK	COE0044
5	Aldersgate Group	COE0071
6	Allsopp, Dr Duncan (Consultant Electrical Engineer)	COE0061
7	Anaerobic Digestion and Bioresources Association (ADBA)	COE0076
8	Anonymised	COE0025
9	Association for Decentralised Energy (ADE)	COE0021
10	British Beer & Pub Association	COE0086
11	British Beer & Pub Association	COE0042
12	British Holiday and Home Parks Association	COE0033
13	British Retail Consortium	COE0050
14	Building Controls Industry Association (BCIA)	COE0072
15	Bukhsh, Dr Waqquas (Senior Lecturer, University of Strathclyde)	COE0015
16	Cadent Gas	COE0023
17	Canfield, Nick	COE0032
18	Caves, Mr Timothy (Retired pensioner on basic state pension, Formerly self employed)	COE0007
19	Centre for Net Zero	COE0064
20	Centrica plc	COE0062
21	Chartered Institute of Housing	COE0014
22	Chemical Industries Association	COE0016
23	Citizens Advice	COE0088

24	Citizens Advice	COE0077
25	Citizens Advice Scotland	COE0089
26	Citizens Advice Scotland	COE0063
27	Copeland, Matt (Head of Policy and Public Affairs, National Energy Action)	COE0037
28	Councillor, (Youth & Community Worker, Scalloway Youth & Community Centre)	COE0005
29	Cregan, Mr Andrew	COE0040
30	Department for Energy Security and Net Zero	COE0078
31	E.ON	COE0067
32	E3G	COE0066
33	EDF	COE0052
34	Edmond, Mr Peter	COE0041
35	Electrify Industry, Make UK	COE0049
36	Ember	COE0045
37	End Fuel Poverty Coalition	COE0053
38	Energy Efficiency Infrastructure Group	COE0055
39	Energy Saving Trust	COE0054
40	Energy Systems Catapult	COE0046
41	Energy UK	COE0048
42	Exergy3	COE0024
43	Fair By Design	COE0022
44	Flex Machine	COE0065
45	Fuel Bank Foundation	COE0082
46	Fuel Poverty Action	COE0073
47	Grundfos	COE0068
48	Heat Pump Association	COE0058
49	Independent Heat Networks Group (IHNG)	COE0027
50	Institute for Public Policy Research (IPPR)	COE0079
51	Institution of Civil Engineers	COE0017
52	Kemp, Professor Roger (Professor Emeritus, Lancaster University, School of Engineering); and Professor Mark Shackleton (Professor of Accounting and Finance, Lancaster University, Management School)	COE0011

53	Liquid Gas UK	COE0047
54	Lorna, Northern Powergrid (External Affairs Lead , Northern Powergrid)	COE0026
55	Low Carbon	COE0091
56	Sarah Edwards MP	COE0008
57	Make UK	COE0085
58	Make UK	COE0029
59	Matthews, Mr (Retired)	COE0010
60	Mineral Products Association	COE0030
61	Mitsubishi Electric	COE0039
62	NAPIT	COE0043
63	National Grid	COE0080
64	National Home Decarbonisation Group (NHDG)	COE0074
65	Nesta	COE0084
66	Net Zero Watch	COE0012
67	OVO	COE0031
68	Octopus Energy	COE0075
69	Offshore Renewable Energy Catapult	COE0070
70	Ofgem	COE0087
71	RWE	COE0069
72	Redmire Pub Company Limited	COE0003
73	Regen	COE0001
74	SSE	COE0090
75	Scottish Federation of Housing Associations	COE0051
76	So Energy	COE0056
77	Social Investment Business	COE0018
78	Socialist Workers Union	COE0083
79	Styles, Mr Peter (Retired water consultant)	COE0002
80	The MCS Foundation	COE0035
81	Thermal Storage UK	COE0013
82	Turver, Mr David (Freelance Energy Analyst, Eigen Values Substack)	COE0004

83	UCL Institute for Sustainable Resources, Centre for Net Zero Market Design	COE0038
84	UK Energy Research Centre	COE0081
85	Uffen, Mr M J	COE0060
86	Utilita	COE0009
87	uSwitch	COE0036

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2026–27

Number	Title	Reference
2nd	Zero sum game: How the UK can reframe the energy transition	HC 230
1st	Get connected: How community energy can turbocharge the transition	HC 229
1st Special	Get connected: How community energy can turbocharge the transition: Government Response	HC 583

Session 2024–26

Number	Title	Reference
6th	Workforce planning to deliver clean, secure energy	HC 393
5th	Tackling the energy cost crisis	HC 736
4th	The new National Policy Statement for nuclear energy generation	HC 1212
3rd	Pre-appointment hearing for the Chair of the Climate Change Committee	HC 1186
2nd	Gridlock or growth? Avoiding energy planning chaos	HC 868
1st	Retrofitting homes for net zero	HC 453
6th Special	Tackling the energy cost crisis: Ofgem Response	HC 1789
5th Special	Workforce planning to deliver clean, secure energy: Government Response	HC 1704

Number	Title	Reference
4th Special	Tackling the energy cost crisis: Government Response	HC 1624
3rd Special	The new National Policy Statement for nuclear energy generation: Government Response	HC 1508
2nd Special	Gridlock or Growth? Avoiding energy planning chaos: Government Response	HC 1507
1st Special	Retrofitting homes for net zero: Government Response	HC 1260