

# Designing a durable energy bill policy in an age of high prices

Consultation  
2022-2023

SMF | Social Market Foundation

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The energy bills crisis is not just a challenge for this winter or next. Forecasts indicate that prices could remain higher-than-average throughout the decade. The current approach for supporting households is inadequate for the challenge – stringing together emergency policies every few months against a patchy backdrop of inherited schemes. What is needed is a coherent, evidence-based approach from first principles to design durable policies that garner public support. **Our project with Public First, commissioned and supported by Citizens Advice, seeks to do just that.**

Following an interim report – that sets out a range of policy options to provide financial support, improve energy efficiency, and reform the market for lower energy bills – we are engaging in a consultation period that will help us develop energy bill support policies that offer households certainty and protection in an age of high and volatile energy prices.

## KEY POINTS

- **Energy bills will continue to have a significant impact on household finances in future.** With average bills at £3,000, we calculate that 12 million households would spend over 10% of their income after housing costs on energy.
- **Current policies don't reach all those in need.** From April, additional support will go to people getting benefits and pensions. But of those 12m households in need, a quarter do not receive any social security.
- **Long-term policies to help with bills should be targeted on households in need.** But current systems can't identify all of those people, meaning some people in need miss out on help, and some public money goes to people in less need.
- **The state needs better mechanisms for identifying people in need of help and getting it to them.** That could be only for energy, or it could cover other sectors. But it needs to be independent, evidence-based and long-term.
- **Voters are increasingly prepared to accept higher taxation to fund bill support.** In July, 52% of people we polled said they supported bill support policies “even if this means taxes rise as a result”. In October, this had risen to 64%.
- **The consultation questions are a part of our [interim report](#),** that sets out a range of policy options to provide financial support, improve energy efficiency, and reform the market for lower energy bills.

## We seek your views and findings on the following questions:

These questions, and their answers, will underpin our final report in the spring of 2023, where we will draw conclusions and make recommendations. We welcome responses at [energy.bills@smf.co.uk](mailto:energy.bills@smf.co.uk)

1. Should help with high energy bills be universal, or should support be targeted in some way on groups deemed to be in particular need of help?
  - a. Selection: Who should receive targeted support with energy bills? How should selection criteria account for income and energy usage?
  - b. Incentives: How can a system of targeted support avoid – or lower – cliff-edges that see some recipients losing significant sums of money because of changes in their circumstances?
  - c. Stigma, low knowledge and participation: How can a system of targeted support address the risk that some eligible recipients might not claim the help they are entitled to?
2. Do you agree that an energy bill policy that seeks to deliver targeted support to those in financial need requires the creation of new state mechanisms to identify those people and deliver that help?
  - a. If yes, what information about households' financial situation and energy usage would such a new system require?
  - b. Further, is the creation of a new state mechanism, reliant on knowledge of the personal circumstances of households, politically viable? How might political and public concerns about “database” policies be addressed here?
3. When it comes to delivering bill support, we have considered four broad options for policy. We find that two of these approaches raise such significant problems that they should not be considered as the basis for long-term policy. Rising block tariff models have superficial appeal and a degree of public support, but because of the complex relationship between income and usage, they create inconsistent and unsustainable outcomes. Real price caps also have an appealing simplicity, but create regressive outcomes and remove incentives to reduce usage or increase energy efficiency. **Do you agree with our rejection of these two models?**
4. Rejecting rising block tariffs and real price caps leaves two options on the table: fixed payment discounts and per-unit discounts. Both are progressive, delivering the most help to people on lower incomes. Fixed payment discounts can deliver lower bill reductions, given the changes in behaviour they can encourage. Per-unit discounts can deliver the biggest benefits to people on higher incomes, and significantly reduce household incentives to reduce energy usage. We think these two policies, their advantages and downsides, should be considered in more depth as part of a long-term energy bill policy. **Do you agree with our assessment of these two policy options? Are there other ways to deliver bill support that we should consider?**

5. Energy efficiency is clearly a vital part of any effort to reduce energy bills, and Britain's poor performance on increasing the efficiency of homes is regrettable in the extreme. Given that a key obstacle to increasing efficiency is unstable, short-lived policy, an important question here is:
  - a. What is the best way to ensure lasting, stable efficiency-promoting policies that can survive economic and political cycles?
  - b. But while there is widespread agreement that efficiency must be increase, many fundamental questions remain, not least since efficiency policies can and do have multiple aims. **Should efficiency policies be set in order to maximise reductions in overall UK energy demand, or to maximise the bill savings to those in greatest financial need?**
  - c. Responses to that trade-off might help frame answers to a subsequent question: **Should government support with the costs of household energy efficiency work be targeted solely on those in financial need of help with bills, or should some support be available to those who are able to pay for efficiency measures but do not choose to do so?**
  - d. A related question: Should the group deemed to be in need of help with efficiency measures be the same as the group selected for targeted price support, or should it differ? If so, how?
6. We have largely considered price support and energy efficiency separately in this report. Of course, we acknowledge that in reality, such policies would co-exist and interact. **How should price support and energy-efficiency policies interact?**
7. Electricity market reform is a vast and complex topic, much of it beyond the scope of this report and this project. But clearly the way wholesale energy prices are determined is directly relevant to energy bills and the people who pay them.
  - a. What principles should underpin electricity market reform, and how can that reform take full account of household energy bills?
  - b. How should market reform policy interact with other energy bill policies?

**We'd be grateful to receive your responses by Friday 20<sup>th</sup> January 2023 at [energy.bills@smf.co.uk](mailto:energy.bills@smf.co.uk)**

## ABOUT THE PROJECT

- Commissioned and supported by Citizens Advice, SMF is working with Public First, to develop long-term policy plans to protect households from high energy prices.
- The joint project is being advised by senior politicians, industry leaders and campaigners:
  - Dame Angela Eagle MP
  - Rob Halfon MP (resigned 26 October on appointment as a minster)
  - David Linden MP
  - Dame Clare Moriarty, CEO of Citizens Advice
  - Keith Anderson, CEO of Scottish Power
  - Clementine Cowton, Director of External Affairs at Octopus Energy
  - Anna Markova & Mika Minio, energy leads at the Trades Union Congress
  - Adam Scorer, CEO of National Energy Action
  - Dhara Vyas, Policy Director of Energy UK
  - Guy Newey, CEO of Energy Systems Catapult
- Thus far, we have produced an **interim report**. Other outputs include workshop summaries, focus group findings and polling results, which can all be found on our **website**.

For any queries, please reach out to us at **energy.bills@smf.co.uk**. For more details of the project, please check the website: **Future of Energy Bills**