

Fifty-eighth Report of Session 2022-23

Department for Energy Security and Net Zero

Energy Bills Support

Introduction from the Committee

Since Autumn 2021, unprecedentedly high wholesale energy prices have led to a significant increase in energy bills. Average annual household bills for gas and electricity increased from £1,277 in winter 2021–22 to £3,549 in winter 2022–23. In autumn 2022, the government introduced support schemes for households through the Energy Bills Support Scheme (EBSS) and Energy Price Guarantee (EPG), and for businesses via the Energy Bill Relief Scheme (EBRS). It also introduced additional schemes to support consumers not on conventional energy contracts, such as those living in park homes. The schemes work by either providing grants to consumers or by capping the wholesale energy prices suppliers can charge to both domestic and non-domestic customers. The Department for Energy Security and Net Zero (the Department) estimates that the schemes will cost £69 billion to taxpayers. The Department is a new department formed in February 2023 as a result of Machinery of Government changes that divided the responsibilities of the former Department of Business, Energy & Industrial Strategy (BEIS).

The Department has overall responsibility for the design and delivery of the schemes for both households and non-domestic consumers. HM Treasury supported BEIS in designing the schemes and approved the budget. The Office of Gas and Electricity Markets (Ofgem) is responsible for monitoring supplier compliance with the obligations of the EBSS and EPG schemes in Great Britain, such as ensuring that bills are reduced to the levels specified, as well as assessing the need for, and taking, enforcement action where required across all the schemes.

From April 2023, the Department will replace the EBRS with the Energy Bill Discount Scheme (EBDS), which will provide a lower level of support for most businesses, with greater support targeted at Energy and Trade Intensive sectors. At the time of our evidence session, the EPG was expected to continue until March 2024, with a reduced level of support from April 2023. Following our evidence session, the Government announced that the higher level of support would be provided for an additional three months between April and June 2023.

Based on a report by the National Audit Office, the Committee took evidence on 23 and 27 February 2023 from the HM Treasury, Department for Energy Security and Net Zero, Department for Science, Innovation and Technology, Department for Business, Energy and Industrial Strategy, Energy UK, Citizens Advice, UK Hospitality, and Federation of Small Businesses. The Committee published its report on 16 June 2023. This is the government's response to the Committee's report.

Relevant reports

- NAO report: [Energy bills support](#) – Session 2022-23 (HC 1025)
- PAC report: [Energy bills support](#) – Session 2022-23 (HC 1074)

Government response to the Committee

1. PAC conclusion: The Department introduced the support schemes quickly, but its lack of understanding of customers' circumstances means that it has taken too long to get support to some of those most in need.

1. PAC recommendation: The Department should, as part of its Treasury Minute response, set out how it intends to be better prepared to support vulnerable consumers through any future energy market interventions.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2023

1.2 The government acted swiftly to provide support to UK households and delivered almost £40 billion of energy bills support through different schemes from October 2022 to March 2023, an unprecedented pace of intervention. This extensive experience in delivering household support and the valuable lessons learned are now underpinning government planning on a range of possible scenarios for next winter.

1.3 The government prioritised quickly reaching as many UK households as possible, which was inherently complex, with greater challenges associated with certain households. People not covered by domestic electricity supply arrangements or off the gas grid (or both) are harder to reach and designing and delivering bespoke application-based solutions for them took time. Additional steps were required, for example to develop and implement application systems, checks to guard against fraud and error and to safeguard public money. Local authorities delivered these schemes in Great Britain, which took time deciding eligibility and handling applications securely. The Department for Energy Security and Net Zero (the department) is seeking to learn lessons on delivery routes and communications so that future schemes could better serve consumers, in particular those who are vulnerable in terms of their personal circumstances or their energy use.

1.4 The department is continuing to explore options for the best approach to supporting consumers from April 2024, by ensuring the retail energy market works better for consumers, bills remain fair whilst upholding and improving consumer standards, and by working alongside the Office of Gas and Electricity Markets (Ofgem) as appropriate.

2. PAC conclusion: The Department is still not doing enough to ensure that support reaches the two million consumers on prepayment meters.

2. PAC recommendation: The Department should set out, as part of its Treasury Minute response, its analysis of which groups of households have not redeemed their vouchers and what further action it will take to increase the redemption rate of vouchers.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 The government has closely monitored Energy Bills Support Scheme (EBSS) voucher payments to traditional prepayment meter customers in Great Britain and published data regularly. Supplier data has provided detailed geographical understanding of areas with low voucher up-take. Lowest redemption is seen in urban areas, with 9 out of the 10 local authority areas with lowest up-take in London. Postcode sector level data provides insight into the types of households likely to be found in each area. A higher proportion of customers with unredeemed vouchers live in socially rented terraced properties or flats, or in primarily ethnic and multicultural areas.

2.3 This understanding enabled focused communications efforts on areas and at demographics with most impact. Government and supplier communications campaigns have encouraged voucher up-take throughout delivery.

2.4 A further, coordinated media campaign was launched at the end of May. ‘National claim your voucher day’ was supported by suppliers, charities and consumer groups. Voucher redemption rates improved from 76% at the end of January 2023 to 85% at the end of May 2023.

2.5 In Northern Ireland, support was delivered through a single cash payment, due to the high usage of heating oil. Thus, scheme design and the nature of the electricity market meant that voucher redemption has been less of an issue and rates rapidly rose to in excess of 90% shortly after launch. On that basis, additional specific analysis has not been conducted.

3. PAC conclusion: The Department drew on lessons it had learnt from financial support it provided during the pandemic to reduce the risk of fraud and error of the schemes, but does not yet know how successful this has been.

3a. PAC recommendation: The Department should, within 6 months, write to the Committee setting out fraud and error rates under the schemes and what it is doing to reduce this.

3.1 The government agrees with the Committee’s recommendation.

Target implementation date: Winter 2023-24

3.2 The department always takes the risk of fraud and error very seriously. This has been a key consideration in the development and delivery of the schemes, which was done with the support of the Public Sector Fraud Authority from the outset. The department continues proactive work to detect and reduce instances of error and fraud associated with Energy Affordability Schemes and will work with external scrutiny providers to provide the Committee with the latest estimated rates.

3b. PAC recommendation: The Department should, within 6 months, write to the Committee outlining how it will ensure the lessons it has learnt from the energy schemes are not lost as BEIS splits into three separate entities.

3.3 The government agrees with the Committee’s recommendation.

Target implementation date: December 2023

3.4 The department will write to the Committee by the end of 2023 outlining how it will ensure the lessons it has learnt from the energy schemes are not lost. The teams working on the energy support schemes have for the most part transferred to the new Department for Energy Security and Net Zero, remaining together and allowing work on lessons learned and evaluation to continue uninterrupted.

3.5 Experience and lessons from undertaking similar work (delivering through the COVID-19 pandemic crisis and delivering subsequent schemes) were harnessed and used to improve delivery of energy schemes. Experience and lessons from undertaking these current schemes are being used to improve future delivery performance.

3.6 Each individual scheme is working to ensure lessons are captured and shared, in addition to a cross-cutting exercise within the department to consider wider lessons and inform future approaches to delivery, including how best to support vulnerable and hard to reach households. As part of the project closure process the department will seek independent assurance to test the robustness of plans for the preservation and sharing of lessons with future schemes. Scheme and departmental leadership are committed to ensuring these are used to promote future performance improvement when each is closed.

3.7 Comprehensive process (including lessons learned), impact and value-for-money evaluations are underway or are being commissioned for schemes for UK households and organisations. The evaluations are expected to run until summer 2025 and the findings will be shared with the Committee when available and will be published.

4. PAC conclusion: HM Treasury and the Department do not fully understand the pressures the non-domestic sector will face when the EBRS ends in March 2023, or the potential risk of insolvencies.

4a. PAC recommendation: The Treasury should, in parallel to its Treasury Minute response, provide details of its analysis of how the changes to business rates, taxes and energy support will affect businesses across different sectors, and outline how it will ensure that businesses will not face a financial cliff edge after March 2023. It must also monitor and report on the effectiveness of the additional financial support made available to Energy and Trade Intensive Industries in ensuring the resilience of those industries.

4.1 The government agrees with the Committee's recommendation.

Recommendation implemented

4.2 When keeping the tax system and reliefs under review, HM Treasury takes into account cost, wider pressures on that sector and how taxes affect the broader economy. HM Treasury carefully considers the impact that a relief will have on different industries and engages with a wide range of stakeholders to inform this analysis. The government does consider the impact of the overall tax burden – including business rates – on different sectors and did so for changes in March 2023.

4.3 The government introduced the Energy Bill Discount Scheme (EBDS) from April 2023 to ensure eligible businesses will receive a discount on their bills for a further 12 months following the end of the EBRS. To design the EBDS, the Department of Business, Energy & Industrial Strategy (BEIS) developed a framework to assess which sectors may be most affected by rising energy prices.

4.4 HM Treasury has provided further detail of the analysis performed to aid decisions on tax and energy measures in a letter to the Committee sent alongside the publication of this Treasury Minute.

4.5 The Department for Energy Security and Net Zero will publish the scale of the discounts provided under the EBDS, including to Energy and Trade Intensive Industries (ETIIs), on Gov.uk on a monthly basis. The department is commissioning an evaluation of the energy support given to organisations under the EBRS and EBDS, including ETIIs. This involves research with ETIIs on their awareness, experiences, perceptions and the support that they have received. The overall effectiveness of delivery, impact and value for money of the schemes will be assessed. The evaluation is expected to run until summer 2025 and the findings will be shared with the Committee when available.

4b. PAC recommendation: The Department should consider whether Ofgem's existing role in regulating the non-domestic energy sector is fit for purpose in managing future unexpected events, such as high gas prices, and whether its remit should be extended to create a fair competitive market in this sector. The Department should urgently consider rectifying these concerns through the Energy Bill which is currently going through Parliament.

4.6 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2023

4.7 The department will respond on this recommendation by Autumn 2023. The department will use the findings from Ofgem's non-domestic market review to inform if any areas of the non-domestic market are not functioning appropriately. If any recommendations point to the need for government action, including making any changes to Ofgem's remit, then the department will consider these carefully and plan for how these would be taken forward by Autumn 2023. Given the need for careful consideration of any actions needed, this does not align with the timings of the progression of the Energy Security Bill.

4.8 Within the Powering Up Britain publication, the government set out how the department will take forward targeted reforms aimed at making the retail market work better for consumers, become more resilient and investable, and support the transformation of the energy system. Further detail on this will be set out in the summer.

5. PAC conclusion: The Department does not yet know how its plans for winter 2023–24, or once support ends in April 2024, will impact households, or how it will ensure the energy retail market provides a fair deal for consumers.

5. PAC recommendation: The Department should write to the committee within 6 months to provide an update on:

- ***its plans to ensure energy affordability in winter 2023–24; and***
- ***its progress with future plans for the domestic scheme, such as capping support to those that use very large volumes of energy and introducing discounts on bills for households on benefits.***

5.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

5.2 The price cap of £2,074 for Q3 2023 was announced by Ofgem on 26 May 2023 and prices are forecast to continue to fall. Energy prices are affected by a range of factors and government is planning for a range of possible scenarios. This planning is being guided by extensive experience in delivering household support last year that is also taking onboard the lessons learned from doing so. The EPG will remain in place as a safeguard over this coming winter in the event prices spike again, and the EBDS will continue to provide support to non-domestic customers who have a contract with a licensed energy supplier until 31 March 2024. Some non-domestic customers who procure their energy from unlicensed energy providers will also be able to claim support under the Non-Standard EBDS until then.

5.3 In the meantime, the government has already committed to provide up to £900 in cost-of-living payments over 2023-24 paid across three instalments to the most vulnerable households on eligible means-tested benefits. This is in addition to £150 for pensioner households and £300 for individuals on eligible means-tested disability benefits.

5.4 In relation to capping support to those that use very large volumes of energy, high energy use is unavoidable for certain vulnerable households, for instance as a result of necessary medical equipment. As such, government have concluded that it should not progress with this option, and that support through the Energy Price Guarantee (EPG) should remain universal.

6. PAC conclusion: We are very concerned about the Department's lack of urgency in addressing the energy market failures that are leading to high energy bills for consumers.

6. PAC recommendation: The Department should set out, as part of its Treasury Minute response, the timeline for its review, and how the REMA will ensure that the electricity sector has more resilience against future unexpected events, such as high gas prices.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2023

6.2 The department aims to publish a second review of electricity market arrangements (REMA) consultation in Autumn 2023 and will take decisions on shorter-term reforms more quickly where it is viable to do so throughout the REMA programme. REMA's overall timescale will depend on the extent of reform found to be necessary and could range from those that could be taken relatively quickly, to reforms that could take a number of years to implement – depending on the nature and complexity of reform. The aim for the second consultation is to set out a direction of travel, next steps and support a smooth transition to any new arrangements over time.

6.3 The REMA programme will consider a range of potential options to shield consumers from the impacts of potential future commodity price spikes and to ensure they benefit from lower cost renewables, including more transformative options, as well as whether an evolution of the current approach represents the best balance of consumer protection, investor confidence and overall system efficiency.

6.4 The Contracts for Difference (CfD) scheme already insulates consumers against electricity price spikes, as all revenues generated from renewables with CfD contracts above a pre-agreed 'strike price' are paid back to consumers. The scheme is driving renewable deployment at scale, and over time will significantly reduce dependence on fossil fuelled power generation, lowering consumer exposure to gas prices.