

# Briefing

## What should happen to green levies?



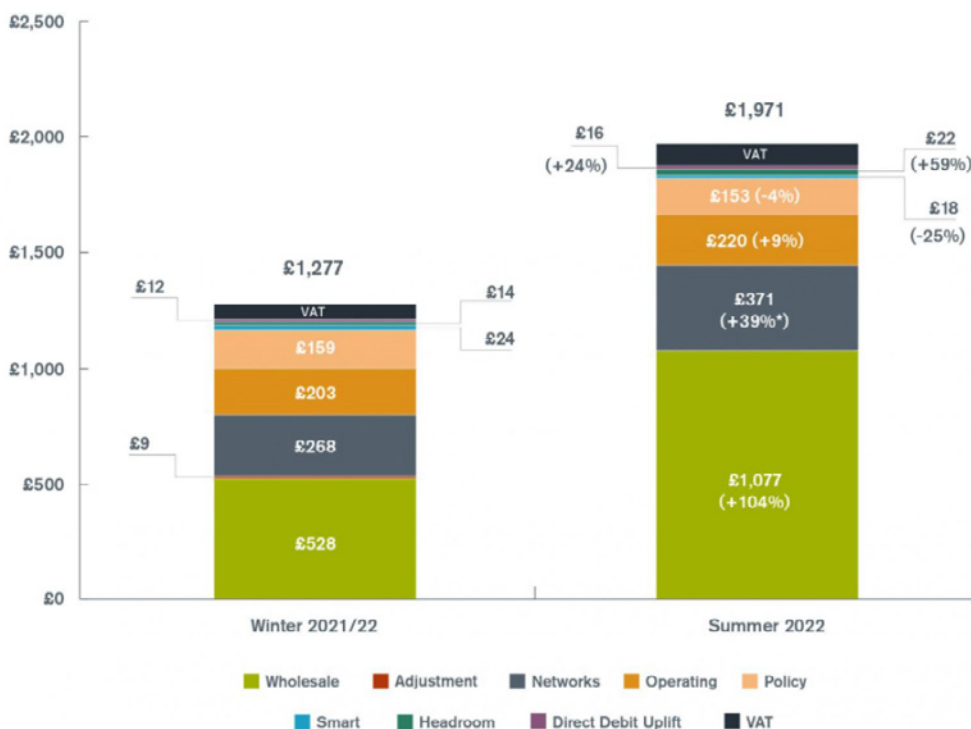
March 2022

The wholesale price of gas is pushing energy bills up, with the cost of gas four times higher in January 2022 than a year earlier. Gas prices have since hit record highs of 508 pence per therm. This is also feeding through into electricity bills, with around 41 per cent of our annual electricity generation coming from gas power.

### Green levies support vulnerable and low income households

Energy bills have several component parts. Wholesale energy costs and network costs make up the bulk, representing 55 per cent and 19 per cent of the April price cap respectively. As can be seen in the graph below, the increase in price cap is overwhelmingly being driven by wholesale energy prices, which have increased by 104 per cent. Other smaller costs include supplier operating costs and margins, taxes (such as VAT), and social and environmental obligations, also known as green levies (denoted as ‘policy costs’ in the graph below).

### Breakdown of costs for a dual fuel customer in the current and April energy price cap (Source: [Ofgem](#))



These green levies cover schemes which support energy efficiency improvements, help vulnerable households with their energy bills and support incentives for renewable energy. They include:

- The [Energy Company Obligation](#) (ECO), where energy suppliers fund energy efficiency improvements for low income and low energy efficiency households, recovering the costs through bills. ECO provides £1 billion of funds a year and has saved low income households [£17.5 billion](#) in lifetime energy bills since 2013.
- The [Warm Home Discount](#) (WHD), which provides a £140 rebate to households on pension credit and some low income working age households.
- The [Renewables Obligation](#) (RO), which supports large scale renewable electricity projects by placing an obligation on electricity suppliers to source an increasing proportion of the electricity from renewable sources.

## Green levies are a small and falling part of the energy bill

Whilst wholesale gas prices continue to soar, the largest driver of the UK price cap, levies on bills that support energy efficiency and renewables are falling. As seen in the graph above, these levies fell from £159 (12 per cent of total) in winter 2021-22 to £153 (eight per cent of the total) in summer 2022.

Existing wind and solar projects supported by the contracts for difference scheme are also contributing to a reduction in consumer energy bills. Wind and solar paid back £160 million in the final quarter of 2021 because of the agreed price (the strike price) for their energy. When the wholesale price is higher than the strike price, generators pay back the difference, and this is reflected in lower bills for consumers in subsequent quarterly periods. The payback could reach [£770 million](#) by the end of the winter 2021-22, equalling £27 per customer on the average bill.

## Steps to take to shield consumers from high energy bills

As energy bills continue to rise, policy makers are looking at all avenues to reduce costs on consumers. Some have called for green levies to be scrapped, but many of the levies fund legacy renewable energy projects and are underpinned by [legally binding contracts](#).

Scrapping these green levies would also put 30,000 jobs across the energy efficiency sector at risk, according to the [Insulation Assurance Authority](#), and it would further expose UK households to future fossil fuel price spikes.

Instead, the government should take three immediate steps to protect consumers from high energy bills:

1. **Move green levies from electricity bills to general taxation.** This would cost the taxpayer [£4.8 billion](#) per year and would immediately take £153 off everyone's energy bills. General taxation is a fairer manner to distribute costs, as low income households pay a higher percentage of their income towards energy bills than higher income households. Under this approach, the lowest income group would save [£98 a year](#) and the highest income group pay an additional £9 a week. Once

energy prices stabilise, levies should be moved from general taxation to gas bills, not electricity bills, to help make electricity a cheaper form of heat for households.

2. **Review the eligibility criteria for schemes funded by green levies.** Research by E3G has shown that [81 per cent](#) of below average income households living in homes rated D or worse are ineligible for ECO. The Resolution Foundation has also shown that less than 69 per cent of the lowest income households are eligible for the [WHD](#). With the number of households suffering fuel stress set to treble to [6.3 million](#) in April, schemes funded by green levies should be extended to cover a greater number of vulnerable households.
3. **Increase the rebate amount offered by the WHD.** [The government has said that it will increase by £10 this year](#), but this will not be enough to cover the sharp spike in energy prices.

These measures should be complemented by action to secure longer term reduction in fossil fuel use (see Green Alliance [briefing](#)).

## The public support green measures

Recent public opinion polling carried out by [Opinium](#) found that:

- Just 13 per cent of the public blame green levies for high energy bills, compared to 34 per cent who blame energy companies and the 28 per cent who blame growing demand for gas around the world.
- Thirty six per cent think decreasing UK dependence on gas and moving to a greater use of renewable energy is the best long term solution to the problem of rising energy bills.

---

For more information contact:  
Joe Tetlow, senior political adviser, Green Alliance  
[jtetlow@green-alliance.org.uk](mailto:jtetlow@green-alliance.org.uk)