Title: Energy Price Guarantee (EPG) - Domestic	**Impact Assessment (IA)**
IA No: BEIS062(F)-22-NZBI	**Date:** 12/10/2022
RPC Reference No: **RPC-BEIS-5234(1)**	**Stage:** Final
Lead department or agency: Department for Business, Energy and Industrial Strategy (BEIS)	**Source of intervention:** Domestic
	Type of measure: Primary legislation
Other departments or agencies: N/A	**Contact for enquiries:** https://www.gov.uk/guidance/contact-beis
Summary: Intervention and Options	**RPC Opinion: Awaiting Scrutiny**

Cost of Preferred (or more likely) Option (in 2019 prices)

Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status** Not a regulatory provision
N/A	N/A	N/A	

What is the problem under consideration? Why is government action or intervention necessary?

The UK is experiencing unprecedented rises in household energy bills, driven by rising global energy prices, at the same time as a wider increase in the cost of other goods. The default tariff cap (the energy Price Cap) rose by 54% in April 2022 and by a further 80% in October 2022. Rising energy prices are placing pressure on the budgets of most households and unmitigated will lead to underconsumption of energy or other essential goods and services during winter with harmful impacts for households, particularly those already vulnerable, as well as detrimental impacts on wider society. The government announced a package of support in May 2022 to help households with the cost of living based on expectations at the time that the October 2022 increase would be ~40%. But the increase is now double that, and while future energy prices are currently highly uncertain, these unprecedented high energy costs are expected to persist beyond this coming winter, pointing to the need for further support.

What are the policy objectives of the action or intervention and the intended effects?

To address this, an intervention is required that could meet the following criteria:

1. Providing significant further support to mitigate high energy prices this winter and beyond.
2. Available to the broader population, for all those in need and impacted by the increase in energy prices.
3. Deliverable ahead of the coming winter, ensuring support is provided over the period of highest consumption to mitigate the adverse impacts of underconsumption.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) Since early 2022, the government has been monitoring the increase in the cost of living and formulating appropriate policy responses. The announcement of a further increase in the GB default tariff cap pointed to the need to for greater support to be offered beyond the package of measures announced in May. As such, on 8 September 2022, the government announced a new Energy Price Guarantee (EPG), which will mean that, from 1 October 2022, a typical UK dual fuel household will pay an average £2,500 a year on their energy (electricity plus gas) bill for the next two years. This Impact assessment considers the implementation of the EPG compared to a counterfactual of providing no additional support.

Is this measure likely to impact on international trade and investment?		No			
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes	
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** N/A	**Non-traded:** N/A		

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** June 2024

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: -- Date: 11 October 2022

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Summary: Analysis & Evidence Policy Option 1

Description: Government funded Energy Price Guarantee for two years (October-22 to September-24)

FULL ECONOMIC ASSESSMENT

Price Base Year 22/23	**PV Base Year** N/A	**Time Period Years** N/A	**Net Benefit (Present Value (PV)) (£m)**		
			Low: Optional	**High:** Optional	**Best Estimate:** N/A

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant	**Total Cost** (Present Value)
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups'

The total value of the EPG support paid by the exchequer is estimated to be £31bn across the UK for the first 6 months of the scheme (Oct-22 to March-23). This is a gross cost and does not include ~£4bn reimbursements back to government from energy suppliers over the same period. There will be an additional cost to the exchequer of around £360m to support those hard-to-reach consumers who may not be caught by the core domestic EPG through one-off payments. Other exchequer costs include forgone VAT revenues (up to £1.5bn over 6 months) and the cost to government for developing and administering the scheme (~£16.5m over 2-years). There will also be around £11m direct costs to business linked to familiarisation and dissemination, reporting, and making the necessary system changes to deliver the EPG and reconcile money at the end.

Other key non-monetised costs by 'main affected groups'

There will be costs to Ofgem for administering and, eventually, enforcing the scheme as well as negative externalities associated with energy consumption, such as carbon emissions and air quality costs.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant	**Total Benefit** (Present Value)
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups'

Domestic gas and electricity customers in the UK will receive around a £29bn transfer over 6 months from government in the form of discounted electricity and gas prices (inclusive of VAT savings) and discretionary funding.

Other key non-monetised benefits by 'main affected groups'

Reduced energy costs for households will lead to indirect benefits including avoided negative health impacts associated with the underconsumption of energy and other essential goods and services, avoided burden and associated costs on the health system and economic productivity, reduced household borrowing costs, interest payments, and debt accumulation, reduced levels and depth of fuel poverty, improved social inclusion and cohesion and reduced risk of civil unrest. The EPG will also reduce the risk and associated costs of energy supplier insolvency and help mitigate future increases in inflation.

Key assumptions/sensitivities/risks	**Discount rate**	N/A

The direct costs to government and benefits to domestic gas and electricity customers is highly sensitive to prevailing future energy prices which are highly uncertain, particularly the further out one looks. The analysis in this impact assessment therefore focuses on the first 6 months of the scheme, assuming energy costs consistent with the average gas and electricity forward curves trading over 10-days to 12 September 2022.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: N/A	**Benefits:** N/A	**Net:** N/A	N/A

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Introduction

1. The cost of living in the UK has been rapidly increasing – the inflation level was 9.9% in the 12 months to August 2022[1]. A key contributor to this high level of inflation is the unprecedented rise in energy costs, driven by rising global energy prices. The Cost-of-Living package announced in May 2022 provides a mix of targeted and universal support to help households manage these rising costs. However, the expected level and duration of future energy costs is now greater than at the time the package was developed, and so further support is required to mitigate these costs.

2. On 8 September 2022, government announced a new Energy Price Guarantee (EPG), which will mean that, from 1 October 2022, a typical UK household will pay an average £2,500 a year on their energy (electricity plus gas) bill for the next two years.[2]

3. Emergency legislation (the Energy Prices Bill) is being introduced to support the delivery of the EPG scheme (and other schemes), which will:

    - create a spending power to allow the Secretary of State for Business, Energy and Industrial Strategy to take steps, including through the provision of financial assistance, to support any person to meet energy costs, thus enabling spending on the EPG,
    - place the operation of the EPG in statute through amendments to necessary legislation, supplier licence conditions and codes, and enable enforcement by Ofgem,
    - reinforce the use of the Ofgem's Default Tariff Cap (price cap) as the reference price for setting the EPG discount for the duration of the EPG, updating Ofgem's duties to have due regard for the impact of price cap setting on public expenditure,
    - provide for similar powers for setting up a scheme in Northern Ireland,
    - require landlords and other intermediaries that include utility costs in rents and fees charged to tenants to pass on the energy bill benefits of the EPG, Energy Bills Support Scheme (EBSS), and non-domestic Energy Bill Relief Scheme (EBRS), where applicable, to their tenants.

4. This Impact Assessment sets out the problem and rationale for intervention, a high-level cost-benefit analysis, and a monitoring and evaluation plan for the main GB EPG scheme, Northern Ireland equivalent, and additional funding for those households unable to fully access the main scheme. It has been developed at pace in response to the scale of the rise in the Default Tariff Cap (price cap) from October-22 announced by Ofgem on 26 August.

5. Given the time available and the largely indirect nature of the costs and benefits of this scheme, we have not developed a fully quantified cost benefit analysis – most of the costs and benefits identified relate to the spending power with around £11m identified direct costs to business, linked to familiarisation and dissemination, reporting, and making the necessary system changes to deliver the EPG and reconcile money at the end (further detail on direct cost to business is set

[1] CPI - https://www.ons.gov.uk/economy/inflationandpriceindices

[2] https://www.gov.uk/government/news/government-announces-energy-price-guarantee-for-families-and-businesses-while-urgently-taking-action-to-reform-broken-energy-market

out on p. 19). As such, we have prioritised monetising the most significant costs of the scheme – the transfer from government, via energy suppliers or discretionary funding, to domestic energy consumers – and drawn from other related analysis to inform qualitative assessments of other costs and benefits.

Problem under consideration

6. The UK is currently experiencing record rises in household energy bills, driven by rising global energy prices. The GB default tariff cap (price cap) for a typical dual fuel household paying by Direct Debit rose by 54% in April 2022 (to £1,971) and a further 80% in October 2022 (to £3,549).[3] Future levels are highly uncertain, but there are credible scenarios, such as that implied by recent forward market energy prices, that would suggest energy bills could be sustained at high levels over the next two years. For example, forward gas and electricity prices as of 12 September 2022 would imply a further increase in the price cap in January 2023, to around £4,200.[4] Electricity and gas prices have also increased in Northern Ireland and further rises are anticipated.

7. There are several government policy initiatives that were already available ahead of the increase in energy prices to help domestic energy consumers who are fuel poor or in vulnerable situations, including:

    - **Warm Home Discount**[5]**:** provides pensioners and fuel poor households with £140 (increasing to £150) off their energy bills.
    - **Energy Company Obligation**[6]**:** obligated energy suppliers provide energy efficiency measures to fuel poor, vulnerable and low-income households.
    - **Winter Fuel Payments**[7]**:** pensioners receive between £100 and £300 to help with heating bills.
    - **Cold Weather Payments**[8]**:** people on certain benefits can receive £25 for each 7-day period of very cold weather between 1 November and 31 March.
    - **Affordable Warmth Scheme (Northern Ireland)[9]:** a grant aimed at low-income households of up to £10,000 to install energy efficiency and improved heating measures.

8. However, the rise in energy prices that began in the second half of 2021 meant that further support was required to protect consumers from the sizeable increase in energy bills. This includes protecting consumers who will continue to struggle despite the existing support. For example, a survey from the ONS reporting on consumer experience from November 2021 to March 2022 reported that 40% of respondents found it difficult to pay their energy bills and 19%

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[3] https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/default-tariff-cap

[4] BEIS analysis

[5] https://www.gov.uk/the-warm-home-discount-scheme

[6] https://www.ofgem.gov.uk/environmental-and-social-schemes/energy-company-obligation-eco

[7] https://www.gov.uk/winter-fuel-payment

[8] https://www.gov.uk/cold-weather-payment

[9] https://www.nihe.gov.uk/Housing-Help/Affordable-Warmth-Boiler-Replacement/Affordable-Warmth-Scheme

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of households reported increasing borrowing. The most common actions reported by adults who said their cost of living had increased were spending less on non-essentials (57%), shopping around more (36%), using less fuel such as gas or electricity at home (51%), and spending less on food shopping and essentials (35%).

9. In response, in May 2022, a £37 billion package of one-off support to help households with the cost of living was announced.[10] This package includes:

   - A £400 Energy Bills Support Scheme payment to all domestic electricity customers;
   - A £650 one-off Cost of Living payment for around 8 million households on means tested benefits;
   - A £300 Pensioner Cost of Living payment for over 8 million pensioner households to be paid alongside the Winter Fuel Payment;
   - A council tax rebate of £150 for all households in council tax bands A to D;
   - A payment of £150 for around 6 million people across the UK who receive certain disability benefits, and;
   - A £500 million increase and extension of the Household Support Fund.

10. However, these interventions were based on a projected October-22 price cap level at the time of £2,800[11], compared with a final outturn level of £3,549 announced by Ofgem in August 2022, and worsening expectations of future prices. To illustrate the issue, the Cost-of-Living Package delivers a one-off benefit of around £800 on average across all households and £1,200 on average to the poorest 10% of households[12]. However, the price cap will have increased by around £2,300 between October 2021 and October 2022, and energy prices are currently expected to remain elevated into next winter. This points to the need for further, longer lasting, support beyond the Cost-of-Living Package urgently ahead of the coming winter, and for the broader population.

11. In the absence of additional support, the increase in the cost of energy will require all households to either allocate a larger proportion of their budget to consume the same level of energy at the expense of consumption of other goods and services, reduce their energy consumption, or a combination of both. This problem will be faced by more households than ever before and is expected to be most acute over the winter period when the need for energy to heat homes is greatest and when there is an increased risk to life associated with the weather[13].

[10] https://www.gov.uk/government/news/millions-of-most-vulnerable-households-will-receive-1200-of-help-with-cost-of-living

[11] Oral evidence provided by Jonathan Brearley to the BEIS Select Committee on 24 May 2022: https://committees.parliament.uk/event/13596/formal-meeting-oral-evidence-session/

[12] HMT distributional analysis accompanying the May 2022 Cost-of-Living package announcement: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1078837/DA_May_2022_publication.pdf

[13] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/excesswintermortalityinenglandandwales/2020to2021provisionaland2019to2020final

Rationale for intervention

12. The current and projected level of energy bills is unprecedented – historic bills have not exceeded £1,600 (in real terms) on average before this current crisis[14]. Energy is an essential and unavoidable expense for all households. This level of energy bills will create financial difficulties for many households beyond those already in or at risk of fuel poverty and within the scope of existing schemes, and these financial constraints are expected to lead to potentially harmful underconsumption of energy and other essential goods and services.

13. Budget and liquidity constraints are likely to mean that many households may be forced to select consumption bundles below desired welfare standards i.e., not sufficiently heating their home, reducing consumption of other essentials such as food or clothing or increase borrowing. In addition, when making this decision, energy consumers may not fully account for the positive externalities associated with their consumption choices, for example health benefits and associated avoided societal costs.

14. By January 2023, even households consuming the average amount of energy for the highest income decile could see energy spending exceed 10% of total household expenditure after housing costs (see Figure 1). These energy price rises will also have significant impacts on inflation more generally, further worsening the cost of living – without mitigation, private sector forecasters are expecting CPI to peak between 13% and 17%, with an average of 15.5%.[15]

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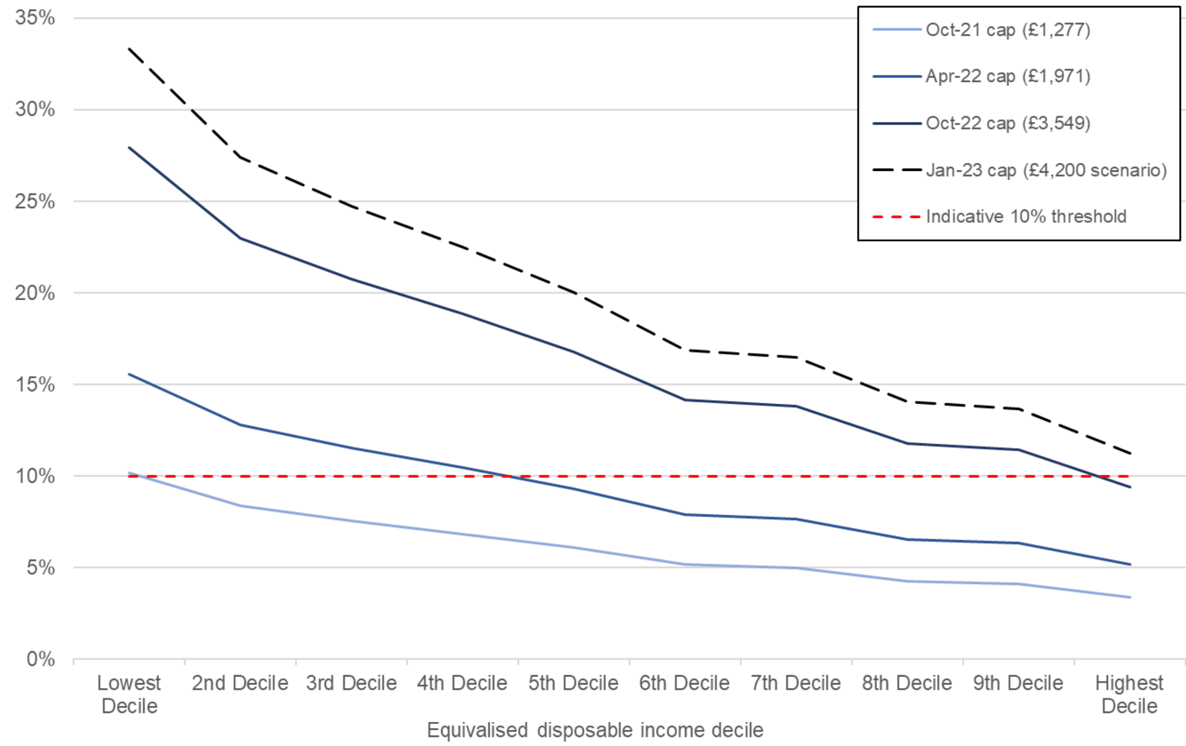
[14] BEIS *Quarterly Energy Prices*: https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics

[15] Further detail is provided in the 'Benefits' section

Figure 1: Energy spend as share of total expenditure after housing costs at each price cap level from Oct-21 through to Jan-23

Source: BEIS analysis using Ofgem price cap data and ONS Family Spending data. Total expenditure based on FY19/20 levels.



Policy objective

15. Given the problem and rationale set out above, an intervention is required that could meet the following criteria:

- **Provide further, longer lasting, support** to mitigate significantly higher energy prices this winter and beyond;
- **Available to the broader population**, for all those in need and impacted by the increase in energy prices; and
- **Deliverable ahead of the coming winter**, ensuring support is provided over the period of highest consumption to mitigate the adverse impacts of underconsumption.

Options

Description of options considered

16. Since early 2022, BEIS and other government departments have been working closely to track the increase in the cost of living and formulate appropriate policy responses to the rise in the cost of energy faced by households. The GB default tariff cap (price cap) for a typical dual fuel household paying by Direct Debit rose by 54% in April 2022 (to £1,971) and by a further 80% in

October 2022 (to £3,549). This points to the need for greater support to be offered beyond the package of measure announced in May.

17. As such, on 8 September 2022, the government announced a new Energy Price Guarantee (EPG), which will mean that, from 1 October 2022, a typical UK dual fuel household will pay an average £2,500 a year on their energy (electricity plus gas) bill for the next two years.

18. This Impact Assessment considers the costs and benefits of the EPG against a counterfactual of doing nothing beyond the package announced in May 2022.

Option 0: Do nothing (Counterfactual)

19. Under the counterfactual, the EPG would not be developed and, as such, the energy cost reduction benefits would not be felt by bill payers. This is expected to result in a high proportion of domestic energy consumers facing unmanageable energy costs putting increased pressure on household budgets. Around 45% of households have no savings[16] and a recent survey from the ONS reported that 40% of respondents found it difficult to pay their energy bills. Moreover, this is expected to have worsened with increasing energy prices since the time the data was collected.

20. Households will need to make trade-off decisions in their budgeting; if they have no savings to rely on, this will mean forgoing consumption of goods and services or expensive borrowing. This is expected to result in opportunity costs for all consumers. In the most vulnerable households this would lead to dangerous levels of underconsumption, such as underheating or undereating. This would likely have additional indirect costs to the exchequer associated with underconsumption of these necessity goods, such as increased strain on the welfare system and NHS particularly over winter periods. Under the counterfactual non-payment of bills may happen at a much larger scale which would further increase energy debt levels, with knock on impacts on individuals' long-term finances. This would also put further pressure on energy supplier cash flows, risking energy market stability, and increasing the likelihood of, and costs associated with, further supplier exits from the market.

21. Existing, targeted support schemes, such as the Warm Home Discount, Winter Fuel Payment, Cold Weather Payments, and the May 2022 Cost-of-Living package, will still be available. There may also be initiatives set up by industry or advocacy bodies (for example, several energy suppliers have increased their hardship funds and other energy saving initiatives). While this support will partially reduce the impacts across consumers, this is expected to be an insufficient response to the unprecedented levels of energy prices households will be experiencing. This is both because of the scale of support provided, and the number of households supported by these existing schemes.

22. Doing nothing further would also lead to higher levels of inflation. In August, the Bank of England forecasted that inflation could reach around 13% in the following months, citing energy prices as

[16] https://www.gov.uk/government/collections/english-housing-survey#2020-to-2021

one of the main causes[17]. Subsequent external forecasts suggest CPI could peak between 13% and 17%, with an average of 15.5%.[18]

Option 1: Government funded Energy Price Guarantee

23. Under this option, the government sets an Energy Price Guarantee (EPG) to limit the prices paid by domestic electricity and gas consumers. This will be delivered through a grant to energy suppliers for the difference between a benchmark cost of buying and supplying the energy to their customers (the "reference price") and the EPG (further implementation detail below). This grant will include government covering the costs of "green policies" which will be reflected in the level of the EPG.

24. In line with the policy objectives, the rest of this Impact Assessment considers the impacts of an EPG at £2,500 per year, effective for two years from 1 October 2022. The combination of a £2,500 EPG and the May 2022 Cost-of-Living package would ensure that the most vulnerable households would see little change in their energy costs between last winter and the coming winter.[19]

25. For the first 3 months of the scheme the reference price is assumed to be the Ofgem default tariff cap, and the EPG level is defined in similar terms. As such, £2,500 is an average figure for GB based on a typical dual fuel household paying by direct debit.[20] The equivalent implied discount will be applied to gas and electricity tariffs in Northern Ireland. This means that the variations in prices between regions and payment methods reflecting differences in associated costs-to-serve, as exist in the default tariff cap approach, are maintained. It also means the cap applies to prices, and not total bills – bills will be higher than £2,500 for households consuming above typical domestic consumption levels, and less for those consuming below.

26. There are three broad categories of customers that will either not benefit from the domestic EPG in Great Britain or Northern Ireland, or will only partially benefit:

    - **Households supplied via a commercial energy supply:** There are between 740,000 and 886,000 UK households and care home residents[21] that are not supplied from a domestic energy supplier (for example, they are served via a commercial supply contract, such as park homes and heat networks) and would therefore not benefit from the domestic EPG. These customers will be supported by the Energy Bill Reduction Scheme (EBRS) for non-domestic energy customers.

[17] https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022

[18] Further detail is provided in the 'Benefits' section

[19] £2,500 - £400 EBSS - £650 means tested Cost-of-Living payments - £150 Council tax rebate for bands A-D = £1,300. This compares to an October 2021 price cap level of £1,277 for a typical GB dual fuel household paying by direct debit. Vulnerable households consisting of elderly or disabled individuals will also stand to benefit further from additional measures in the Cost-of-Living Package.

[20] Consistent with Ofgem's Typical Domestic Consumption Values for a medium dual fuel household: 2.9MWh p.a. electricity and 12MWh p.a. gas

[21] Annex A of the Energy Bill Support Scheme Impact Assessment

- **Households that use alternative fuels for their heating:** Around 2 million UK households use fuels other than gas or electricity for heating[22] and would therefore only partially benefit from the EPG through their general electricity consumption.

- **Households on fixed rate tariffs:** Around 6 million[23] customers on existing fixed tariffs will stand to benefit from the EPG but floor rates will be applied to minimise deadweight – customers will receive a discount either equivalent to the main EPG discount or up to the point their tariff rates reach the floor level, whichever is less. This means that customers on legacy fixes stand to benefit less from the EPG where their tariff rates are already favourable compared to the EPG. For the first 3-months of the scheme, no new fixed tariff offerings will be in receipt of the discount. Future policy development will consider the treatment of fixed tariffs in future periods.

27. Domestic energy consumers that receive their energy via an intermediary with a commercial energy contract will be supported by the Energy Bill Reduction Scheme (EBRS) for non-domestic energy customers.

28. Customers that do not use either mains gas or electricity for their heating will be eligible for an additional payment of £100. This payment is aimed at ensuring the percentage increase in prices faced by households using alternative fuels to heat their home is brought to the same level as households using mains gas that are covered by the EPG. More detail on how this figure was derived is set out in Annex A.

Implementation of Energy Price Guarantee option

29. The high-level scheme design for the EPG is as follows, with the Energy Prices Bill providing the legislative framework:

    a) Government sets maximum unit prices for gas and electricity to achieve a £2,500 EPG per year (on average for GB for a typical dual fuel household paying by direct debit) for consumers who are on Standard Variable Tariffs. In the period October-December 2022, the average EPG unit rates for GB for customers paying by direct debit (inclusive of VAT) will be 34p/kWh for electricity and 10.3p/kWh for gas. These unit rates include the cost of removing "green levies" from customers' bills – these costs will instead be covered by the payments made by government to energy suppliers. Standing charges will remain consistent with the announced default tariff price cap for October 2022.

    b) Fixed Tariff customers will receive an equivalent unit rate reduction in their tariff but, as many customers on existing Fixed Tariffs are likely to be on comparatively favourable rates, a floor rate (equivalent to £2,500) has been introduced to cap the benefit available to them to reduce deadweight. Those on Fixed Tariffs below the floor will receive no additional benefit and those above will only receive a benefit value that takes them to the floor.

    c) Government enters into private law contracts for an initial term of three months (1 October to 31 December 2022), with all 26 GB domestic energy suppliers, which require the suppliers to offer energy to customers in line with the EPG. There will be two, multilateral contracts

[22] BEIS modelling based on English Housing Survey (EHS), Scottish House Condition Survey 2019, Welsh Housing Condition Survey & Northern Ireland housing Statistics.

[23] Ofgem data

(one for electricity and one for gas) with identical terms for all suppliers so that the scheme can be delivered on a level-playing-field basis.

d) In return, government agrees to compensate suppliers for the difference between the EPG and a ‘reference price’, representing the maximum reasonable price (per unit of energy) energy suppliers could otherwise have charged. For the first 3-months of the scheme, this reference price will be the default tariff cap (price cap), as announced by Ofgem on 26 August and the unit price discounts will be 4.2p/kWh for gas and 17p/kWh for electricity (excluding VAT). The same unit price discounts will apply in Northern Ireland (see further details below).

e) The reference price will be reviewed on an agreed, regular basis, possibly quarterly in line with the current price cap timetable. As such, the level of discount required to achieve a £2,500 EPG will vary quarterly.

f) Xoserve and Elexon, the settlement bodies for gas and electricity respectively, will act as the scheme administrators and make payments to suppliers on an agreed timeline. They will also be under contract with the government. Payment timings are intended to strike a balance between ensuring adequate supplier cashflow and considerations of managing public money and subsidy control. We believe that existing industry systems are capable of providing this service rapidly and slightly in arrears with a weekly frequency.

30. This scheme was designed at pace to ensure it could be effective from 1 October. As such, certain design elements may need to be reviewed in future to improve the effectiveness and efficiency of the scheme.

31. In Northern Ireland, both the EPG and EBSS will work very similarly to those in Great Britain, as described above, and householders will receive an equivalent level of support. NI energy suppliers will reduce bills by a unit price reduction of up to 17p/kWh for electricity and 4.2p/kWh for gas. Additionally, for the first five months of the scheme HMG will provide additional ‘backdating’ support to compensate for the fact that customers in Northern Ireland did not receive EPG support in October. The additional rates are as follows: for electricity, 2.91p/kWh, for gas, 0.61p/kWh. This additional support will be paid until the 31 March on top of the ‘standard’ rate.

32. This will take effect from 1 November 2022. This would mean NI household bills typically remain cheaper than GB ones, but that all UK households are receiving the same level of financial support with their gas and electricity bills. This will maintain the price differential that currently exists between the two gas using regions in NI. The same contractual approach would be taken with NI suppliers.

33. In future we may not align the NI discounts with GB. Additionally, as there is no quarterly review of prices in NI, we might need to vary the discount more or less often than GB to account for suppliers moving their prices up and down.

Cost-benefit analysis

Justification for the level of analysis

34. This Impact Assessment has been developed at pace in response to Ofgem's announcement in late August of a very large increase in the default tariff cap (price cap) from 1 October 2022. It is imperative that the necessary measures to deliver the domestic EPG are in place by 1 October 2022 to ensure domestic energy consumers are supported further, to achieve the policy intent.

35. Given the time available, we have had to work around various data constraints. For example, we have limited quantified evidence on the likely costs of the scheme to certain energy participants and Ofgem, or the level and prevalence of certain tariffs, particularly in Northern Ireland. There are also significant uncertainties around market responses under 'do nothing' and under the scheme – for example, the demand response to such unprecedented high prices and the impact of the EPG on supplier tariff offerings at different price levels. More data will be collected once the scheme is live, which can inform future reviews. Furthermore, the main costs and benefits relate to spending powers and are therefore considered indirect.

36. As such, for this Impact Assessment, we have not developed a fully quantified cost benefit analysis. Rather we have prioritised monetising the most significant costs of the scheme – the transfer from government via energy suppliers or discretionary funding to end consumers – and drawn from evidence gathered in the process of developing the EBSS to inform other costs and benefits, accompanied by qualitative assessments of how these might differ under the EPG. Where the time available has limited our ability to fill data gaps for any quantification, we have made simplifying assumptions, and these are set out in the relevant sections below.

Costs

Cost of the grant for domestic gas and electricity

37. The largest cost of the scheme will fall on the exchequer to fund the reduction in domestic gas and electricity unit rates to achieve the target unit rates – this is essentially a transfer from government via energy suppliers to domestic energy consumers. This cost is particularly sensitive to prevailing future wholesale energy prices and demand but, based on the 10-day average forward prices for gas and electricity to 12 September 2022, we estimate the total cost of the UK scheme for the first 6-months to be £31bn[24] (nominal undiscounted). This is a gross cost and does not include repayments from energy suppliers back to government for subsidy not spent on fixed tariffs bounded by the floor rates. These repayments could be in the region of £4bn across the first six months, based on a simplified assumption of a straight-line decline in the number of fixed tariffs over the course of the scheme.[25]

[24] The costs of delivering the EPG to households in Great Britain over the first six months is £30bn and £1bn in Northern Ireland

[25] According to Ofgem, there are expected to be around 6 million customers on fixed tariffs as of 1 October 2022, the majority of which are likely to be on favourable legacy rates (given limited availability of attractive fixes over the past year), although these are likely to expire over the course of the next 2-years. This compares to an estimated 14 million customers on fixed tariffs on 1 October 2021. We assume a simplified assumption of a straight-line decline in the number of fixed tariffs and an upper bound assumption that all these variable rates are below the EPG to arrive at this estimate.

Equivalent support for hard-to-reach consumers

38. The cost to the exchequer of providing a £100 support payment to UK households off the gas grid will depend on how accurately this support can be targeted. Households using district heating or electric heating will already be supported by the EBRS or EPG and may be out of scope for this payment. The total cost is estimated to be between £220m and £500m[26] over the winter months, with a central estimate of £360m.

Forgone VAT revenues

39. There will also be an indirect cost to government in the form of reduced VAT revenues collected from end consumers of gas and electricity at the 'do nothing' price cap level. This could be up to 5% of the final grant amount, or up to around £1.5bn in the first 6 months of the scheme. This is likely an overestimate given the expected demand reduction at price levels under 'do nothing'.

Government administrative costs

40. There will also be costs for government and industry (including suppliers and delivery bodies) for developing and administering the scheme. The cost to government to administer the domestic EPG is estimated to be £16.5m (excluding additional legal costs) over the two-year delivery period, based on an extrapolation of the costs of administering the EBSS. There will also be additional costs associated with delivering support to alternative fuel consumers although these could be minimised by making use of delivery vehicles similar to the EBSS framework for delivery to these consumers. There are also expected to be costs to Ofgem for their role in administering and eventually enforcing the main scheme for gas and electricity in GB, but these have not been estimated at the time of writing.

Business administrative costs

41. We do not have formal cost estimates for business, but we can make a qualitative assessment based on more developed costings for EBSS. The costs borne by domestic energy suppliers is estimated at £44m to deliver the EBSS across the UK delivered between October 2022 and March 2023, although over 90% of these costs are associated with delivering the EBSS payments themselves – under EPG there is no requirement on suppliers to make payments to customers like EBSS, including the significant avoided cost of delivering vouchers for traditional prepayment customers. The support offered through EPG is expected to be of a substantially higher scale, duration, and involves a volumetric subsidy for both gas and electricity supplies. This will require energy suppliers to apply floor rates, and deal with the required reconciliation process which could add complexity and cost. In the absence of the EPG suppliers would still be required to change tariffs on a quarterly basis in line with the default tariff cap and the EPG scheme will be refined to ensure that a more automated system is developed as soon as possible to reduce future costs. Over time, the number of tariffs on which floor rates and reimbursements need to be applied will also fall as fixed term tariffs come to an end and customers default to the EPG level. Furthermore, the use of Elexon and Xoserve, who collect the required volume data to deliver the scheme, avoids the need to collect any additional data from suppliers thus reducing the burden on them.

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[26] This range reflects the dependency on the delivery mechanism and associated targeting effectiveness.

42. Overall, our expectation is that the EPG could be less costly for energy suppliers to administer than EBSS. Using a simplified assumption of scaling 10% of EBSS costs by the higher value of the EPG in the first 6 months, this would imply a smaller cost to suppliers of around £11m for the first 6 months[27]. Applying a reasonable adjustment factor on top of this for the handling of fixed tariff floor rates and associated reimbursements would still likely put this below EBSS over the same period.

43. The extent to which industry costs are absorbed by suppliers or absorbed by government or consumers in future will depend on the extent to which they are reflected in future reference prices and will be a consideration of future policy development. These costs may also be offset by benefits to suppliers from reduced debt accumulation and customer non-payment because of the EPG.

Negative externalities associated with consumption of energy

44. There will also be additional costs in the form of negative externalities (carbon emissions, air quality impacts) associated with consumption of energy. However, it is important to note that the primary objective of the intervention is to result in safer levels of energy consumption, and that, even with the intervention, the resulting energy consumption is not expected to place the UK off track for meeting its carbon budgets given the scale of price increases expected and given a £2,500 EPG is still above historic energy price norms. No estimates have been made at this stage given high levels of uncertainty around future prices under "do nothing" and the fact that current energy price levels are far beyond any variations used to assess price elasticity of energy demand in most literature.

Benefits

Reduced domestic energy bills

45. Benefits of the EPG will primarily accrue to domestic energy customers in the form of lower prices to enable consumption of energy mainly. As with the direct costs to the exchequer, this benefit is particularly sensitive to prevailing future wholesale energy prices and demand but, based on the 10-day average of forward prices for gas and electricity trading in the period over the period 12 September 2022, we estimate the total benefit of the UK scheme to domestic energy consumers for the first 6-months to be £29bn.[28]

Reduced underheating, avoided negative health impacts and reduced welfare costs

46. Underconsumption of heating can lead to, or exacerbate, health issues[29] and their associated knock-on adverse effects on the wider economy, including burdens and costs on the National Health Service and reduced productivity. The timing of these indirect benefits also needs consideration as winter is typically a time when the health service is already under strain due to flu, COVID and other associated conditions.

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[27] Simplified cost to business EPG = (£44m*10%) * (£31bn/£12bn) = £11m

[28] Equivalent to the total cost of the UK scheme and discretionary funding plus foregone VAT minus reimbursements.

[29] https://www.nice.org.uk/about/nice-communities/social-care/quick-guides/helping-to-prevent-winter-deaths-and-illnesses-associated-with-cold-homes

47. The EPG helps mitigate against this by reducing prices and enabling more energy consumption and higher temperatures in homes, specifically over the winter period. While we have been unable to monetise the effect of the EPG on this, we can draw qualitative and quantitative conclusions from other studies. A study on the effect of heating costs in the United States found that lower energy prices help prevent winter deaths[30]. This is supported by findings from a previous Warm Home Discount evaluation, which found a small increase in the temperatures of properties in receipt of the grant. In addition, a Building Research Establishment (BRE) report estimated that excess cold in ~800,000 homes led to health costs of ~£6 billion annually, and £15 billion in total wider society costs.

Reduced incidence of fuel poverty

48. The EPG can lead to a reduction in the level of fuel poverty by directly reducing the cost of energy relative to the counterfactual. BEIS analysis of the impact on fuel poverty[31] [32] in England suggests that, taking account of other support such as EBSS, a £2,500 EPG compared with the £3,549 October 2022 price cap level could lead to 600,000 fewer households in England in fuel poverty. We would also expect improvements in fuel poverty levels in other UK countries.[33]

Reduced impact on inflation

49. At a macroeconomic level, by directly influencing the unit price of energy for domestic customers, the EPG has a high likelihood of mitigating increases in inflation metrics (CPI, CPIH, RHI) that would occur under “do nothing”. Subject to ONS determination, a range of external forecasts suggest the EPG could reduce peak CPI by around 4-5 percentage points (see Table 1).

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[30] https://www.nber.org/bh-20192/lower-heating-prices-prevent-winter-deaths-particularly-cardiovascular-and-respiratory-causes

[31]Fuel poverty defined using Low Income Low Energy Efficiency (LILEE), finds a household to be fuel poor if it has a residual income below the poverty line (after accounting for required energy costs) and lives in a home that has an energy efficiency rating below Band C. https://www.gov.uk/government/publications/sustainable-warmth-protecting-vulnerable-households-in-england

[32] Full details on BEIS approach to modelling fuel poverty impact can be found here: https://www.gov.uk/government/publications/fuel-poverty-statistics-methodology-handbook

[33] Fuel poverty is a devolved issue, with each nation in the UK having its own fuel poverty definition and targets, therefore cross-regional impacts are not directly comparable.

Table 1: External forecaster assessments of the inflation impacts of EPG

Forecaster (*commentary on effect of bills freeze*)	Peak CPI post-EPG	Peak CPI pre-EPG	Change, ppts
Citi (*peak in January*)	11.7	17.4	-5.7
Panmure Gordon *(peak in Q4 2022)*	10.2	16.6	-6.4
Goldman Sachs *(peak in October, pre-freeze peak in January)*	10.9	14.8	-3.9
Nomura	-	-	-4.5
Capital *(may peak at 11% in October)*	11	14.5	-3.5
HSBC *(peaking earlier and lower in October)*	10.3	14	-3.7
Pantheon *(peak may be 10.1)*	10.1	17	-6.9
Barclays *(already peaked in July)*	10.1	13	-2.9
MS *(peak lowered by 4.5pts)*	11	15.5	-4.5
PWC *(between 11 and 13)*	12	17	-5
ING *(up to 6pp off January peak)*	10	16	-6
Average	**10.7**	**15.6**	**-4.8**

Reduced household borrowing and interest payments

50. In the absence of the EPG, many households will likely increase their borrowing to pay for their energy bills. The ONS reported that, for June 2022, 20% of adults surveyed said that they had increased borrowing or were using credit from the previous year.[34] The cost of borrowing will vary depending on the type of finance and individual circumstances, but average figures reported by the Bank of England[35] suggest interest payments could be between 4% and 34% across overdrafts, credit cards and personal loans. If, in the absence of the EPG, consumers raised the equivalent funds by borrowing, this would represent a disbenefit in the form of interest payments for the borrower. The range of total savings in borrowing costs for the first six months is estimated between £130 and £359 for a household with typical energy consumption that would need to borrow the entire difference between energy costs without the EPG and with the EPG[36].

Reduced risk of debt accumulation and supplier insolvency

51. There are reported to be around three million domestic gas and electricity accounts which are either in debt or arrears[37]. This is expected to increase with recent (and future) energy price

[34] https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/datasets/publicopinionsandsocialtrendsgreatbritainhouseholdfinances

[35] https://www.bankofengland.co.uk/statistics

[36] A household with typical usage will save an estimated £1,057 across the first six months. To estimate the avoided interest payments on borrowing we have assumed the interest rate of overdrafts (34%) and personal loans (4%) in line with evidence from the Bank of England. We also assume the term of the borrowing for overdrafts is 1 year, and 5 years for personal loans.

[37] https://www.ofgem.gov.uk/energy-data-and-research/data-portal/all-available-charts?keyword=debt&sort=relevance Accessed: 03/08/22

increases. The EPG is anticipated to improve the ability of energy consumers to manage their energy bills, and so reduce the risk of non-payment. This will also reduce energy suppliers' cost of borrowing to service those debts, so reducing their cashflow problems and risk of insolvency at a time when energy supply businesses are financially constrained. This has the knock-on benefit of reducing expected future costs of insolvencies that would be mutualised across the market. As an illustration, the total mutualised cost of winter 21/22 supplier failures is estimated at £2.7bn.[38]

Wider societal benefits

52. Reduced energy costs can also have wider societal benefits, such as improved social inclusion and cohesion, and reduced risk of civil unrest.

Distributional impacts

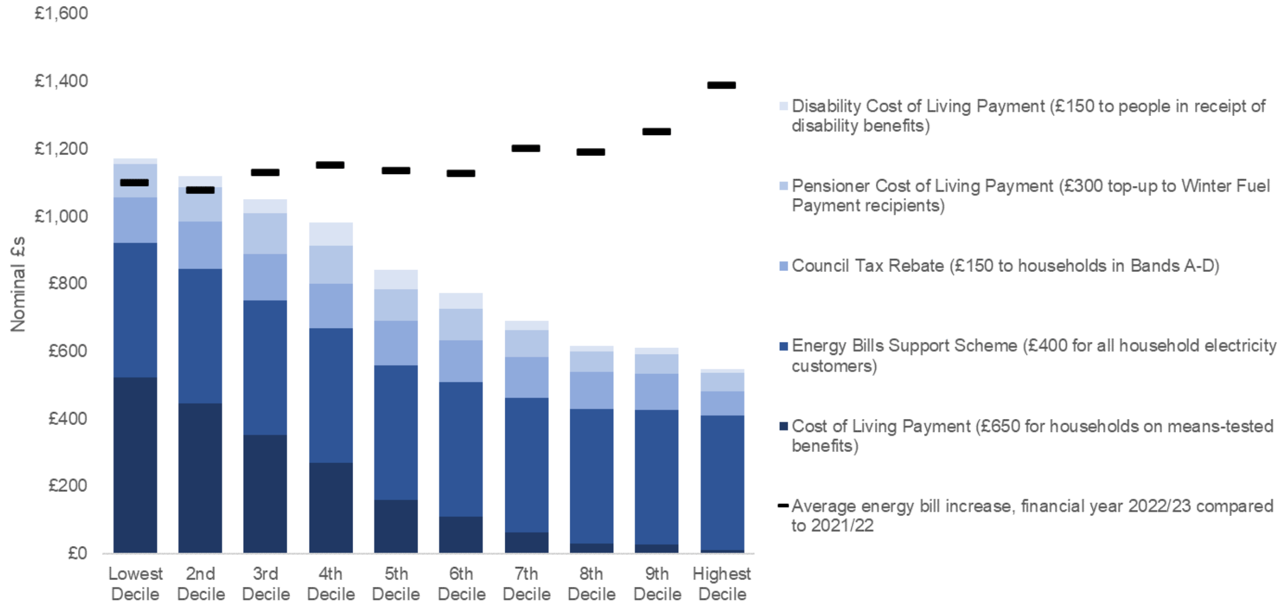
53. All households are intended to benefit from the EPG. As it is a volumetric measure, the absolute financial value of the benefit will be greatest among those households with highest energy demand – this could include households with large homes and large numbers of appliances and/or an electric vehicle, as well as households in relatively inefficient homes or otherwise high energy needs including those in or at risk of fuel poverty. Households with the lowest energy usage will therefore receive the lowest financial benefit – including those in smaller or more efficient homes and homes with small-scale onsite electricity generation (like solar PV).

54. In general, the value of the support will represent the greatest benefit as a share of income/expenditure to the lowest income households. These households are also most likely to experience the wider benefits set out above since they are least able to absorb increased energy costs without this support. To provide an indication of what this support implies for households with different incomes, we have carried out analysis of the combined impact of the May 2022 Cost-of-Living package and a £2,500 EPG, which shows that households in the lowest income deciles are on average slightly better off in Financial Year (FY) 2022/23 than FY21/22 (see Figure 2). The EPG limits the average increase in energy bills for the lowest income decile to around £1,100 which is more than offset by support from the May 2022 package of around £1,200 – in the absence of the EPG the increase in bills would be around £2,100.

[38] National Audit Office analysis of Ofgem data as at May 2022: https://www.nao.org.uk/wp-content/uploads/2022/03/The-energy-supplier-market.pdf

Figure 2: Average energy bill increase between FY21/22 and FY22/23 with a £2,500 EPG compared against the May 2022 Cost-of-Living package

Source: BEIS analysis using ONS family spending data and HMT analysis of the May 2022 Cost-of-Living package.



Direct costs and benefits to business

55. As in the 'Cost' section, we have provided an indicative cost to business of delivering the domestic EPG of around £11m in the first 6 months across the 32 energy suppliers the UK. We consider all these administrative costs to be direct, with the possible exception of some of the 'other administrative costs', in line with RPC guidance[39]. We also note there could be some cost savings to energy suppliers. The key areas where energy suppliers are expected to incur costs and benefits are discussed below:

- **Familiarisation and dissemination:** Reading and understanding new regulatory requirements and guidance is assumed to happen at an energy supplier level. This includes the time associated with creating guidance, planning implementation and dissemination to wider teams through training.

- **Reporting:** Energy suppliers will be required to report before, during and after the EPG. Across the lifetime of the EPG, energy suppliers will be required to report monthly delivery, certification and submit information for counter fraud analysis. This is assumed to be carried out by a mixture of internal financial and business analysts, with approval provided by senior officials.

- **Delivering the EPG:** All suppliers are expected to bear costs associated with communicating to customers to inform them of the EPG's impact on unit energy costs. This could be delivered via e-mail or post. Energy suppliers are also expected to incur some costs for applying the price floors for fixed tariff customers each quarter. However, the number of

[39] https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019

existing fixed tariffs on which a floor is applied is expected to decline over the course of the scheme, and the scheme will be refined to ensure that a more automated system is developed as soon as possible to reduce future costs.

- **Reconciliation:** After receiving the funds from the scheme administrators, the energy supplier will provide data on overpayment in relation to applying the floor to existing fixed tariff customers to the administrator. At the end of the scheme energy suppliers may have to return any overpayments to HMT. As above, we would expect this cost to decline over time.

- **Other administrative costs:** There could also be some additional administrative requirements related to communicating with customers, dealing with in-coming calls about the scheme and preparing the required documentation for audits. In particular, additional customer calls have been stated as a concern for energy suppliers in response to emerging malicious phishing/spamming campaigns. However, it is challenging to assess what proportion of these would be additional because of the EPG, given that at the same time energy prices will be increasing and the EBSS will be delivered.

56. There will also be benefits to suppliers in the form of reduced costs associated with customer responses to prices that would otherwise have risen above the EPG level, such as the costs of managing customer non-payment and debt accumulation, as well as wider knock-on benefits of improved market stability. These have not been quantified at this time and it therefore has not been possible to reliably assess the extent to which these will outweigh the direct costs to businesses of the scheme. However, given the need to act urgently and at scale to deliver an intervention, we consider these costs justified.

57. The reduction in the unit cost of energy for the EPG targets domestic customers only and is government funded, as such so there is no direct cost or benefit to businesses as energy consumers. The Energy Bill Relief Scheme (EBRS)[40] has been announced to provide support to non-domestic energy customers such as businesses, charities, and public sector organisations for rising energy costs.

58. Furthermore, the introduction of legislation which requires landlords who offer all-inclusive rents to pass on the full benefits of such schemes to tenants is expected to have an impact on some landlord and letting agencies. Evidence on the prevalence of all-inclusive rents is limited, according to a Citizens Advice around 13% of tenants[41] have their energy managed by their landlord but only a subset of these will be on an all-inclusive basis. These landlords or agents may face additional administrative burdens in familiarising themselves with the requirement and passing these costs through to tenants. However, this would only be additional if in the absence of the legislation they would not have passed on the support. This is expected to be a quick desk-based exercise for landlords or letting agents and come with minimal additional costs.

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[40] https://www.gov.uk/government/news/government-outlines-plans-to-help-cut-energy-bills-for-businesses

[41] https://www.citizensadvice.org.uk/about-us/our-work/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-policy-research/room-for-reform-embedding-fair-outcomes-for-tenants-in-tomorrows-retail-energy-market/

Key assumptions and uncertainties

59. There are several uncertainties, inherent in the above analysis. The most material ones are:

- **Future energy prices:** The costs and benefits are highly dependent on future wholesale gas and electricity prices, which will directly affect the reference price and therefore the level of the support. Energy prices are currently highly volatile, leading to significant uncertainty over the proposed two-year duration of the EPG. Costing has therefore focused on the first 6-months of the scheme where the uncertainty is much narrower – the default tariff cap for the period October-December 2022 is already set although uncertainty remains as to the level for January-March 2023, where we have assumed the 10-day average gas and electricity forward curve prices trading over the period to 12 September 2022.
- **Household energy consumption**: The costings are based on historic average domestic demand for gas and electricity[42]. Given the increase in energy prices, it is reasonable to expect that energy consumers may reduce their consumption in response, as indicated by the result of the aforementioned ONS survey. If consumption is in fact lower than historic trends, the total costs of the scheme will be lower than estimated here. However, actual consumption and therefore costs will also be influenced by the weather and other factors.
- **The scale of administrative costs:** There is uncertainty over both government and industry administrative costs to deliver the EPG. As discussed, the costs around developing and administering the EPG for government have been estimated by BEIS and, for industry, we have used the costs of the EBSS scheme as a comparator. Energy suppliers should be incentivised to keep these costs to a minimum to remain competitive, although uncertainty over the total cost remains.
- **The extent of industry admin cost and benefit pass through**: Energy suppliers will bear costs and benefits associated with delivering the EPG. These could be included in future reference prices and hence the support provided by government. This would enable energy suppliers to recover the majority of these from consumers on default tariffs while reducing the extent of overcompensation (see next section).

Policy uncertainties, issues, and unintended consequences

60. There are a number of implications of the initial policy design which will need to be considered and managed across the delivery of the EPG. These are summarised below:

- **Deadweight:** There are likely to be issues of deadweight given this is a universal measure, reflecting the challenges of developing a more targeted scheme in time for delivery ahead of this winter. Despite the significant increases in energy costs, there are likely to be households for which energy prices under “do nothing” would still be manageable and not lead to issues of underconsumption, mostly likely those with higher incomes. The share of the spend on the scheme that is deadweight reduces the higher energy prices are under “do nothing”.

[42] Average temperature adjusted demand over the past five years taken from BEIS energy statistics: https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics

- **Overcompensation:** Under the initial design of the scheme, there is likely to be some overcompensation of energy suppliers for supply costs avoided. For example, within the price cap, there are scalable allowances associated with the costs of energy. Where these are associated with customer responses to price levels (e.g., customer non-payment and debt servicing), these would be partially avoided by the EPG. The extent of overcompensation will depend on the levels of future “do nothing” prices and the consumer response to these emerging high prices. This overcompensation may be mitigated in future reviews of the reference price.

- **Enforcement of contracts based on common law:** The EPG is being delivered via private law contracts between the government and energy suppliers. There is therefore a risk not every energy supplier opts to sign up to the scheme, and therefore the customers of those energy suppliers would not benefit from the scheme. Reputational damage as well as the very high likelihood that non-participation would lead to a major loss of customers, could act as a mitigating incentive. Once the scheme is placed on a statutory basis, this risk will be removed as all licensed suppliers will be required to take all reasonable steps to partake.

- **Customers who pay for their utilities via rents:** Where households pay for their utilities within rents (all-inclusive rents) new legalisation is being introduced as part of the Energy Prices Bill to ensure intermediaries including property owners pass on the benefit to end users in line with the arrangements in their respective contracts or tenancy, and guidance is being developed to advise how tenants should expect to benefit from the scheme, as well as how to challenge where necessary.

- **The scheme is insufficient:** The Cost-of-Living package announced in May 2022 includes additional one-off support which, combined with EPG, means the most vulnerable households should see minimal increases in their energy costs between last winter and the coming winter, but there is no further support yet announced for next winter. The government continues to monitor the cost-of-living situation and does not rule out the need for further targeted support in future years.

- **Gaming and fraud:** As with any large government spend, there is a risk of fraud or gaming. Any gaming/fraud by energy suppliers or consumers could impact on the funds delivered by the EPG and could mean the funds would not be used for the policy intent, reduce the effectiveness or increase the cost of the EPG. The BEIS Counter Fraud team has established, with the Public Sector Fraud Authority (PSFA), an Energy Price Guarantee Assurance Programme (EPGAP) where suppliers and payment bodies must provide the SoS and its data processor (Cabinet Office) with data relating to consumer supplies for the purpose of monitoring performance, auditing parties, and conducting fraud, error and assurance compliance checks with the Scheme. The Public Sector Fraud Authority (PSFA) will continue to develop their assessment of the scheme and develop any necessary further controls. In addition to the EPGAP, there are already provisions within the contracts to deal with any instances of fraud discovered in the course of the scheme and the risk will be further mitigated by taking the necessary powers in planned emergency legislation to provide Ofgem with the ability to fully undertake compliance and enforcement activities in reference to supply licence conditions.

Impact on small and micro businesses

61. The domestic EPG main scheme will be delivered by all electricity and gas suppliers who serve and have a direct relationship with their domestic electricity and gas customers in the United Kingdom. According to the latest Ofgem data, there are 26 energy suppliers in the GB domestic retail energy market, with around 11 suppliers classified as either a small business or microbusiness as of 13 May 2022[43]. In total these 11 suppliers currently serve fewer than 150,000 consumers. In addition, as of Q1 2022 there are 3 domestic energy suppliers supplying electricity only and 3 domestic energy suppliers supplying both gas and electricity in Northern Ireland[44]. These suppliers will deliver the domestic aspect of the EPG in Northern Ireland. We do not currently have data on how many of these suppliers are small and micro businesses.

62. The EPG aims to support as many domestic energy customers as possible in the United Kingdom. As such, any exemption for suppliers would not be in line with the policy intent and to the detriment of customers and their suppliers. There will be no additional or different requirements placed on small or micro businesses. However, we recognise the impact of delivering the EPG may be felt differently across energy suppliers.

63. We expect some similarity in experiences as with delivery of the EBSS and can therefore draw from responses to the EBSS consultation and engagement with suppliers. This feedback suggests smaller suppliers could face an increased administrative burden owing to their inability to change ways of working or the makeup of their customer base. Conversely, we have also heard from some suppliers that these smaller entities may be able to respond to delivery requirements in a more agile way because they have smaller customer bases and less cumbersome and legacy ways of working. The reporting requirements of the EPG are expected to be similar to the existing reporting all suppliers submit to Ofgem, which is expected to reduce additional complexity. Ultimately, the experience is expected to vary across suppliers, dependant on their business model.

64. Overall, while suppliers may face different challenges in delivering the EPG, and there could be a greater impact placed on small or micro businesses, the potential for this is assessed to be outweighed by the importance of ensuring as many customers as possible benefit from the EPG and that competition is not distorted by excluding some customers and suppliers from this scheme. Moreover, the response to the EBSS consultation suggested that all suppliers would be incentivised to deliver such schemes as cost effectively as possible to maximise their competitiveness and deliver the greatest benefit to their customers.

65. Furthermore, the introduction of legislation which requires landlords who offer all-inclusive rents to pass on the full benefits of such schemes to tenants is expected to have an impact on some landlord and letting agencies, some of which are likely to be small or micro businesses. Evidence from the English Housing Survey suggests that only around 0.6% of rental properties offer all-inclusive rent, translating into approximately 60,000 households in the UK[45]. These landlords or

[43] Based on BEIS analysis of Companies House data https://www.gov.uk/guidance/companies-house-data-products

[44] https://www.uregni.gov.uk/files/uregni/documents/2022-06/Q1%202022%20QREMM%20%28FINAL%29v2.pdf

[45] Based on 28m UK households (ONS - https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families) and EHS - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000052/EHS_19-20_PRS_report.pdf

agents may face additional administrative burdens in familiarising themselves with the requirement and passing these costs through to tenants. However, this would only be additional if in the absence of the legislation they would not have passed on the support. This is expected to be a quick desk-based exercise for landlords or letting agents and come with minimal additional costs.

Equality impacts

66. We have also considered the equality implications of the preferred option. This included a Public Sector Equality Duty (PSED) assessment which has been completed for the preferred option. Overall, we believe that the EPG will have a positive impact for all recipients, including those that share the protected characteristics assessed under the PSED requirements. This is due to automatically providing support to all domestic gas and electricity consumers in the UK without an application process.

67. As already discussed in this Impact Assessment, this aims to help all UK households manage unprecedented levels of energy prices and help avoid dangerous levels of underconsumption of energy or other goods/services. However, we recognise that there are several impacts of the EPG design which could have varying impacts across different groups. The EPG will provide the greatest benefit to the fuel poor and those households most likely to be facing financial difficulties because of significantly high energy costs, for whom energy, as an essential service, represents a significant share of total household expenditure or income. People with protected characteristics such as age, disability, and ethnicity are typically disproportionately represented among this group. The concern about paying energy also differs between protected characteristics. A summary of the key considerations is set out below.

68. **Religion:** the median hourly pay in England and Wales in 2018 was lowest for those who identified as Muslim[46] and so may derive a greater benefit from EPG assuming energy expenditure makes up a greater proportion of their income.

69. **Age:** in 2021 the UK median weekly pay for employees in their 40s was 35% higher than employees in their 20s and 80% higher than those aged between 18-21[47]. The median equivalised fuel costs increase as the age of the oldest person in the household increases for those households who have an individual above the age of 24[48] suggesting higher demand and therefore a higher absolute benefit from EPG. People aged 25-54 were more likely to be very or fairly worried about energy bills (74% compared with 60% of those aged 55 and over, and much lower at 42% of those aged 16-24). The propensity to be most worried about energy bills compared with transport or food expenditure was lower for people aged 16-24 (32% compared with 62% of those aged 25 and over). However, those aged 16-24 were also more likely to say that this doesn't apply to them (16% compared with 2% in all other age groups) which partly explains this difference.

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46 https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/religion/articles/religioneducationandworkinenglandandwales/february2020#earnings

47 https://commonslibrary.parliament.uk/research-briefings/cbp-8456/

48 https://www.gov.uk/government/statistics/fuel-poverty-supplementary-tables-

70. **Disability or vulnerability:** of those surveyed in 2020 by the ONS Wealth and Assets Survey[49], over 40% of adults in Great Britain have a combined financial and property wealth below £23,249. Of those poorer households 41% have a physical or mental disability[50] and so may derive a greater benefit than those who earned higher wages and so were less sensitive to the pressure of increasing energy prices. Furthermore, households with energy-using health equipment will typically be associated with higher energy use and stand to benefit more from this volumetric scheme. The lead causes of excessive winter deaths are lung and heart conditions, dementia, and Alzheimer's related to the excessive cold – the greatest impact being among older age groups[51]. Dangerous under-consumption of energy leading to colder households could exacerbate the issue of excessive winter deaths. The energy costs reduction brought by the EPG should help mitigate placing many people with health vulnerabilities at risk compared the counterfactual. There is little difference in the energy efficiency, median floor area (that would require greater heating expenditure for a bigger home all else equal), and median equivalised fuel costs of those households that are deemed vulnerable[52] compared to those that are not. The fuel poverty gap is greater for those in non-vulnerable households, but the proportion of those in fuel poverty is greater in vulnerable households compared to non-vulnerable households, potentially explained by a lower median equivalised income in vulnerable households.

71. **Ethnicity:** The median household wealth[53] was lowest for those where the household representative was of Black African ethnicity, over 10x less than the highest median earners (of Indian ethnicity)[54]. Again, these lower income households may derive a greater proportional benefit from the EPG and have been disproportionately negatively impacted from potential energy price rises in the absence of the EPG. Households where the household reference person was of white ethnicity had higher median equivalised fuel costs, less efficient homes, and larger homes than those households whose household reference person was of an ethnic minority. This resulted in a higher average fuel poverty gap for white households, albeit the proportion of households in fuel poverty was lower in white households than ethnic minority households due to a higher median income[55].

72. **Sex and household composition:** According to the BEIS Public Attitudes Tracker[56] women were more likely to be very or fairly worried about energy bills (69% compared with 60% of men) and

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49 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/14597analysisofwealthandassetsbydisabilityageandincomegreatbritainapril2018tomarch2020

50 Mental disability is referencing those with learning, memory and recognition of physical danger disabilities according to the ONS Wealth and Assets Survey

51 https://www.gov.uk/government/publications/health-matters-cold-weather-and-covid-19/health-matters-cold-weather-and-covid-19

52 A household is determined as vulnerable in these statistics if it contains at least one household member who is 65 or older, younger than 5 or living with a long-term health condition affecting mobility, breathing, heart or mental health condition.

53 Excluding private pension wealth

54 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/householdwealthingreatbritainbyethnicity

55 https://www.gov.uk/government/statistics/fuel-poverty-supplementary-tables-

56 https://www.gov.uk/government/statistics/beis-public-attitudes-tracker-summer-2022

the propensity to be most worried about energy bills compared with transport or food expenditure was higher for women than men (61% compared with 55% of men). Couples aged over 60 with no dependent children had the largest, least efficient homes with the greatest average fuel poverty gap compared to other household compositions[57] and therefore stand to benefit more, in absolute terms, from this volumetric measure.

Monitoring and Evaluation

73. We are planning an approach to monitoring and evaluating the EPG that is proportional, supports scheme delivery and can feed into key policy review points and provides the necessary insights around whether the policy has met its expected objectives. It will ensure there is demonstrable evidence of how the EPG scheme was implemented, including the benefits, outcomes, impact and value it has delivered, and capture learning to inform the development of future similar interventions to address energy cost concerns for households across the UK.

74. The EPG will be delivered through energy suppliers, and as such, there is a need for us to collect scheme data from the suppliers for a range of purposes including supporting delivery, compliance purposes, and providing key data for evaluation purposes.

75. Alongside this monitoring, we expect to conduct process, outcome, impact, and economic evaluations of the EPG. This evaluation will be commissioned and is expected to start in early 2023. It will use a range of approaches to assess whether the scheme objectives have been met, as well as gathering insight into the implementation and business/stakeholder response to the scheme. The evaluation approach will require further scoping. The evaluation will be designed to allow key insights to be fed into key policy review points, building on the in-flight narrative provided by monitoring activities, and will also need to be flexible to respond to any policy changes. At a high-level we intend to monitor and evaluate:

    - **Operational aspects**, to understand the delivery of the EPG and the intervention's design and administration supported delivery of EPG objectives. Insights will be gathered on the process around agreeing the reference price with suppliers, the delivery of compensatory payments from government to suppliers, any scheme administration challenges and lessons learned.
    - **Consumer awareness and perceptions of EPG**, including the ability of different consumer groups to benefit from the price cap and any PSED considerations.
    - **Outcomes achieved by the EPG**, to inform policy development and strengthen predictions around the benefits and impacts arising from the intervention. This will involve analysis of monitoring data on energy bills, consumption levels, energy bill payments, fuel poverty and self-disconnection rates among different income groups, among other variables.

[57] https://www.gov.uk/government/statistics/fuel-poverty-supplementary-tables-

- **Scheme impacts**, to understand what difference the scheme has made, and where possible exploring the additionality from EPG on supporting households during the energy crisis and other wider societal and economic impacts.

- **Value for money**, through comparing the costs of delivering the policy alongside the benefits realised, as well as comparing the cost-effectiveness of the policy between groups to understand any differences in equity within the policy.

76. The evaluation will also need to be aware of wider external factors which may influence the success of the scheme. These may include: The economic context and business uncertainty, given high rates of inflation; Interactions with other Cost of Living support measures; and Wider domestic policy landscape.

Annex A: Determining the level of support for households using alternative heating fuels

77. The main EPG limits prices for electricity and gas but will not cover alternative fuels used for heating in homes off the gas grid, such as heating oil. The Alternative Fuel Payment scheme will ensure a £100 payment is made to eligible households to compensate for the rising costs of those fuels. This is intended to guarantee households will receive support equivalent to those on both the electricity and gas grid for the total cost of their energy. Rather than an adjustment to prices, this support will take the form of payments to households. The support provided to off-grid households is intended to ensure that a typical household does not face a higher rate of growth in their heating costs since last winter, compared to those on gas supported by the EPG.

78. Without the EPG, the cost of heating the average on-grid home with gas would have increased by approximately 220% between October 2021 and October 2022[58]. With the EPG, this is limited to 130%, not accounting for support from EBSS. Over the same period, heating oil prices in Great Britain have risen by approximately 150%. Allowing for slightly higher than average consumption of energy for Home Heating Oil (HHO) customers versus mains gas customers, the amount needed to bring HHO customers down to a 130% increase is £100. While heating oil prices vary between Great Britain and Northern Ireland, a payment of £100 limits the average bill increase to match that of a gas consumer in both markets. Off-grid homes with an electricity connection will also benefit from the EBSS payment.

Table A1: Heating Oil Costs in Great Britain and Northern Ireland over the past year

	Great Britain	Northern Ireland
Heating fuel demand for average off grid home (Litres)	1514[59]	1817[60]
Average heating oil price August and September 2021 (p/Litre)	40.6[61]	45.1[62]
Average heating oil price September 2022 (p/Litre)	100.3[63]	104.6
Heating oil bill (average demand) August/ September 2021	£615	£820
Heat oil bill (average demand) September 2022	£1,518	£1,900
Growth in average bill over the past year	147%	132%
Heating oil bill if growth is limited to 130%	£1,415	£1,885
Difference from current bill	£103	£15

[58] This reflects the growth in energy price cap determined by Ofgem.

[59] BEIS analysis. Demand estimates are based on modelling of the characteristics of UK housing stock.

[60] Consumer Council demand for Northern Ireland. This is the mid-point between Consumer Council research findings (May 2022) and the Sutherland usage estimate for a standard boiler.

[61] BEIS - Monthly and annual prices of road fuels and petroleum products - Standard grade burning oil, monthly prices https://www.gov.uk/government/statistical-data-sets/oil-and-petroleum-products-monthly-statistics

[62] Consumer Council Average Heating Oil price data for Northern Ireland. https://www.consumercouncil.org.uk/homeheatingoilpricechecker/tool

[63] Average price for Sept 2022 as of 22/09/22 from Boiler Juice.com https://www.boilerjuice.com/heating-oil-prices/

79. While the calculation above is based on the change in heating oil prices, the same support from the discretionary fund will be made available to all households using alternative fuels. Based on the price data currently available, while other alternative fuels, such as LPG, have increased in price since last winter, these increases have been proportionally smaller than that seen with heating oil.

80. Because the discretionary fund will be a fixed grant to alternative fuel users, rather than a volumetric or per unit discount on the price of fuel, there is inherently a different distributional impact to the support received via the discretionary fund relative to the core EPG. Compared to the core EPG higher consumers will receive proportionally less benefit that lower consumers.

81. The calculation of the support payment looks specifically at the trend from Autumn 2021 to prices as they currently stand (September 2022). The discretionary fund will need to be kept under review in case alternative fuel prices rise significantly.