WHY HAVE ELECTRICITY BILLS RISEN?

NETZERO WATCH

There has been a concerted campaign in recent weeks to convince the public that current high electricity prices are mostly a function of high gas prices. Robert Peston's recent interview of Kemi Badenoch on his eponymous show on ITV* was a case in point.

However, the datasets that Ofgem publishes alongside its energy price cap announcements tell a completely different story, revealing that – and contrary to the claims of media and environmental activists – with gas prices having now returned almost to their pre-crisis levels, the cost of making electricity is now having only a peripheral effect on domestic and industrial bills. As this factsheet shows, the chief driver is now green policy.

Bill changes over the last 10 years

In real terms, the April 2025 price cap is £326 higher than the equivalent one in 2015. This figure can be broken down as shown in Figure 1. This analysis is very different to, for example, the one put out by the Peston show or even Ofgem's. However, I suggest that the approach adopted here is the correct one. The details of the differences will be set out under each heading. Note also that all the figures presented here are corrected for inflation and include 5% VAT.

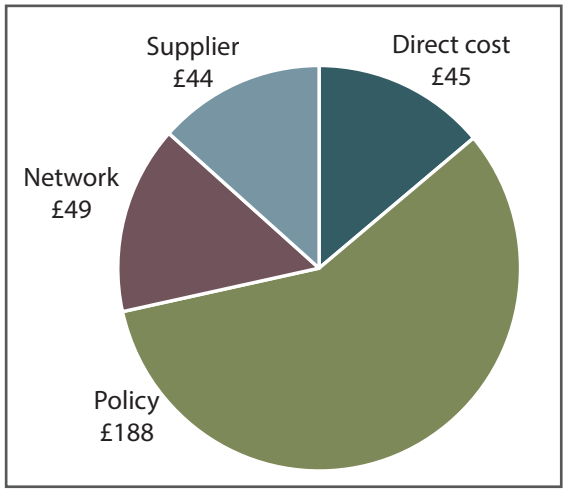

Figure 1: Changes in retail bill 2015–2025

Direct cost

While Ofgem treats Contracts for Difference and Capacity Market subsidies as part of the wholesale cost, here they are treated more correctly as policy costs. In addition, an estimate of the carbon taxes hidden in this element have also been reallocated to policy costs.

Figure 2 shows how the remaining element – the direct cost – has changed over the last 10 years. There are three distinct periods, which correspond to the equivalent trends in gas prices – the long period of stability from 2015 to 2021, the spike during the energy price crisis, and then the return to something close to normality at the start of 2023, followed by a rise in the last 12 months, mostly because of cold weather and the EU requirement to refill gas storage ahead of the winter, which pushed up gas market prices.

The direct cost is now only £45 above its 2015 value in real terms, representing just 14% of the overall increase. This is the part of the increase in electricity bills that can reasonably be attributed to gas prices.

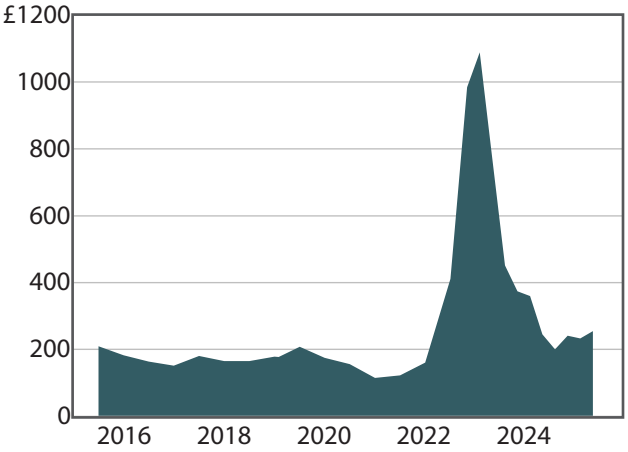

Figure 2: Changes in direct cost element of consumer bill 2015–2025

* https://youtu.be/OIBdAK68n6w?si=aaY1D4xW0b6U0ouc&t=243

Policy costs

As noted above, Ofgem treats Carbon taxes, the Capacity Market and Contracts for Difference subsidies as part of wholesale costs. In normal parlance, these are indisputably policy costs.

The 10-year real-terms increase in policy costs of £188 is broken down as follows.

	£
Capacity market	26
Renewables subsidies	83
Carbon taxes	39
Insulation schemes	11
Social schemes	9
Smart meters	20

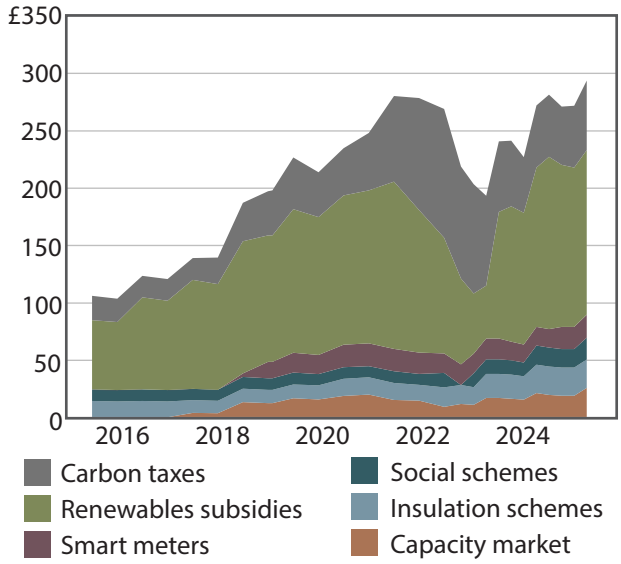

Figure 3: Changes in policy costs 2015–2025

All are closely related to Net Zero policies and all have increased over the last ten years. Clearly the bulk of the increase is due to Net Zero policies. The underlying trends can be seen in Figure 3. The dip in subsidies in 2022–23 is due to CfDs paying back to suppliers when wholesale market prices spiked.

Network costs

The rise in network costs is also almost all due to Net Zero. The breakdown of the £49 total is as follows.

	£
Transmission	17
Distribution	6
Balancing	26

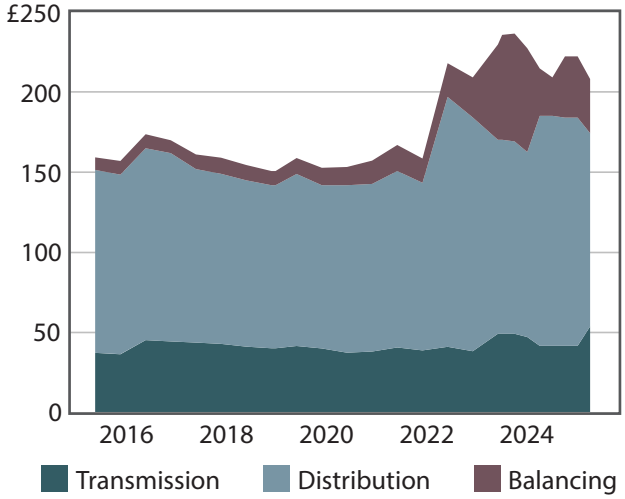

Figure 4: Changes in network costs 2015–2025

The trends can be seen in Figure 4. The Balancing Cost increase is mostly due to increases in so-called constraints payments – amounts paid to windfarms to ge them to switch off and then paying a gas-fired power station to switch on. The cost has risen steadily as more and more windfarms have been added to the grid in Scotland, where they are likely to be constrained. Some of the apparent spike during the energy price crisis is due to it becoming more expensive to pay gas-fired units to switch on.

Transmission costs have increased due to the need to strengthen grids for Net Zero.

Conclusion

Electricity bills are higher than ten years ago. Around three quarters of the increase results from Net Zero – in particular because of subsidies, carbon taxes, and the cost of switching off windfarms. Arguments that gas prices are to blame are incorrect.