

Net Zero, Energy and Transport Committee

12th Meeting, 2022 (Session 6)

Tuesday 19 April 2022

Energy Price Rises

Background

1. At its meeting on 15 March 2022, the Net Zero, Energy and Transport Committee agreed to hold a short “snapshot” inquiry into energy price rises.

Energy price rises

Why have energy prices risen?

2. A rise in demand for energy as COVID related restrictions across the world have been lifted has aligned with a [“lower than normal production of natural gas”](#). This, combined, with the situation internationally has led to a substantial increase in energy prices. On 3 February, Ofgem [announced](#) an energy price cap rise of 54%.

3. Whilst a [significant proportion of Scotland’s electricity comes from renewable sources](#), the market is designed so that the wholesale cost is driven by the cost of the most marginal fuel in the mix, which is predominantly gas.

Rises in standing charges

4. The standing charge for gas and electricity is a daily charge which customers pay regardless of the amount used. It pays for several associated costs of maintaining and developing transmission and distribution systems, as well as social and environmental costs.

5. Recently announced price rises have included an increase in standing charges. A key reason for this is the costs associated with the [Supplier of Last Resort](#) process, where households are expected to pay the costs of rescuing customers from failed companies, of which there have been many in recent times. Ofgem [notes](#):

“Over the last year, 29 energy companies have exited the market or been put in special administration in the wake of soaring global gas prices, affecting around 4.3 million domestic customers.”

Contribution of energy price rises to the cost of living increases

6. Increases in the cost of energy have contributed significantly to inflation and are a major part of rises in the cost of living, as wages fail to keep up with rising prices for everyday essentials.

7. Data from the ONS shows that CPI inflation rose by 6.2% in the year to March 2022, the highest rate since December 1911. Household energy bills and wider fuel costs were one of the key drivers of the increase. The ONS note that:

8. “The largest upward contributions to the annual CPIH inflation rate in March 2022 came from housing and household services (1.49 percentage points, principally from electricity, gas and other fuels, and owner occupiers' housing costs) and transport (1.47 percentage points, principally from motor fuels and second-hand cars).”Energy prices have been, and are expected to continue to, be a major driver of increased inflation. In their [March 2022 forecast](#), published alongside the UK Chancellor’s Spring Statement, the OBR expect inflation to continue to increase to a peak of 8.7 per cent during Q4 2022, with wholesale energy prices a key driver. The OBR expect that real living standards will fall by 2.2 per cent over the 2022-23 financial year, which would be the largest fall over a financial year on record.

9. SPICe has recently published a blog on the [energy price crisis – impacts and remedies in Scotland](#) which explores the key drivers of energy price rises, expert commentary, and some of the responses from Government.

Remit of the inquiry

10. The Committee’s consideration of these issues will be focussed on short- and medium-term solutions to high energy prices for consumers. With this being to such a large extent a current global problem, and with many aspects of energy policy being reserved to the UK Government (as discussed further in [this SPICe subject briefing](#)), the inquiry will focus on the solutions for consumers available to the Scottish Government.

Meeting

11. At its meeting on 19 April 2022, the Committee will hear from—

- [Dr Matthew Hannon](#), Reader in Sustainable Energy Policy and Business Models, Hunter Centre for Entrepreneurship, University of Strathclyde;
- [Tim Lord](#), Head of Climate Change, Phoenix Group and Associate Senior Fellow for Net Zero, Institute for Global Change;
- [Dr Richard Lowes](#), Senior Associate, The [Regulatory Assistance Project](#).

12. On 13 April 2022, Food and Drink Federation Scotland submitted written evidence in relation to the inquiry. [View the submission](#).

13. At future meetings, the Committee hopes to hear from representatives of those experiencing hardship from energy price rises, regulators and government.

Clerks

Net Zero, Energy and Transport Committee