

Net Zero, Energy and Transport Committee

15th Meeting, 2022 (Session 6)

Tuesday 10 May 2022

Energy Price Rises

1. The Committee is holding a short “snapshot” inquiry into energy price rises. Its remit is to focus on short- and medium-term solutions to high energy prices for consumers. Energy price rises are to a large extent a global problem. Many key aspects of energy policy are also 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.

Why are prices increasing?

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%. A further rise is expected in October.

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.

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 recently. 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 Office for National Statistics shows that consumer price 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 the largest upward contribution in March:

“... 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).”

8. Energy prices are also expected to continue to drive inflation for some time. In their [March 2022 forecast](#), published alongside the UK Chancellor's Spring Statement, the Office for Budget Responsibility said they expect inflation to peak at 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 in more detail the key drivers of energy price rises, expert commentary, and some of the responses from Government.

Evidence taken

10. The Committee's first evidence session of this inquiry took place on 19 April, when it heard from three experts on energy policy with private sector and academic experience. You can read the [Official Report of the meeting via this link](#).

11. On 26 April, the Committee heard from two panels of witnesses. The first panel focussed on the impact of rising prices on consumers. The second panel included energy producers and suppliers. [You can read the Official Report of this meeting via this link](#).

12. You can also [view this written submission](#) from the Food and Drink Federation Scotland.

13. At this meeting, the Committee will hear from Ofgem. It will also hear from the Scottish Government at a future meeting.

Clerks

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