



The government hopes to cut the link between the prices of gas and electricity in an effort to reduce household bills  
ALAMY

COST OF LIVING

## Energy market reform will cut fuel bills

Oliver Wright, Policy Editor

Monday June 13 2022, 12.01am, The Times

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Ministers are drawing up plans to sever the link between the prices of gas and electricity in an effort to cut household bills for millions of families.

In what would be the biggest reform of Britain's power market in decades, the government proposes to end the system by which the wholesale cost of gas in effect determines the price of electricity for consumers.

More than a quarter of the UK's electricity is from renewable sources, for which costs have been largely unaffected by rising global energy prices. However, the link has been blamed for exacerbating the cost of living crisis as it has forced customers to pay over the odds for electricity because of spiralling

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With more expansion of nuclear power and offshore wind generation due over the next decade, ministers believe that the pricing system is no longer fit for purpose. One expert has called it “unconscionable”.

The Department for Business is expected to bring forward proposals for market reform “in the coming weeks” as part of its energy security strategy. Legislation will then be introduced in autumn, within the energy bill.

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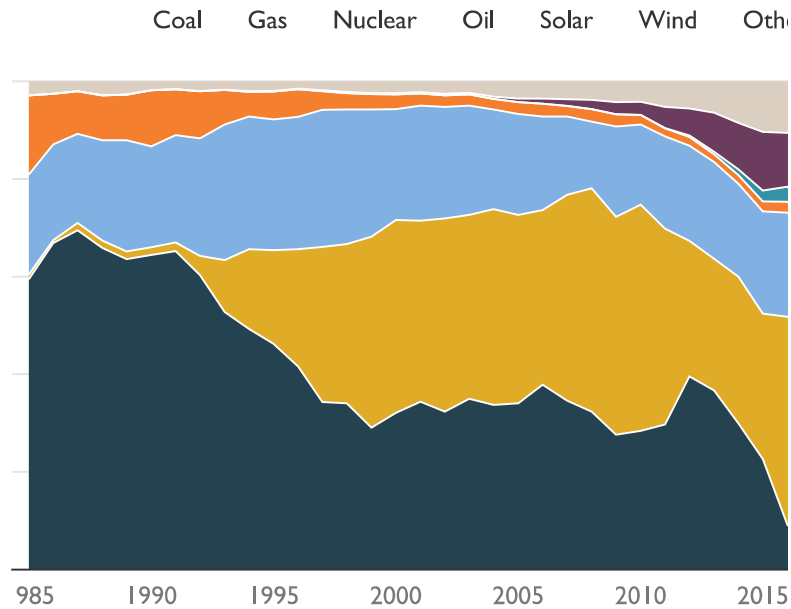
Government sources said that in the long run the change would bring down electricity bills and make the market “far more stable”. However, they said the reforms were “fiendishly complicated” and that it was critical to get them right.

It is estimated that at present prices, generating power from new renewable energy is less than a quarter as expensive as gas, and the cost of new nuclear generation is about half that of gas.

Although many new renewables projects are paid fixed prices for their electricity under the “contracts for difference” system, many older projects have made millions in extra profits since gas prices began rising last year.

# Energy mix

Percentage share of fuels contributing to electricity generation



Other contains electricity from hydro and biofuel

Chart: The Times and The Sunday Times • Source: Our World in Data

[Rishi Sunak](#), the chancellor, said in May that he was considering a windfall tax on these generators. However, sources in the Treasury and the business department said that in the longer term the government was committed to fundamental market reform.

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“In the past it didn’t really matter because the price of gas was reasonably stable,” one said. “Now it seems completely crazy that the price of electricity is based on the price of gas when a large amount of our generation is from renewables.”

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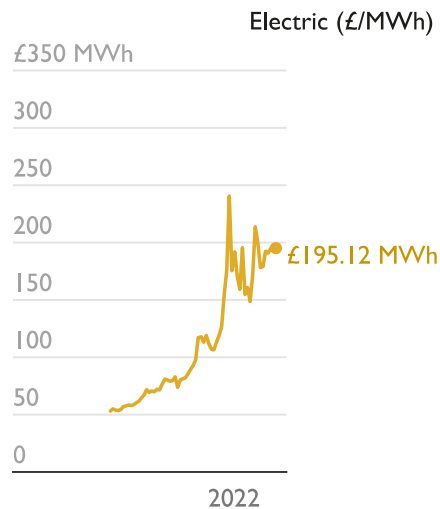
decarbonisation.

Recent research by the Energy and Climate Intelligence Unit suggested that with even cheaper [wind farms](#) coming online in the next few years, if there were another gas crisis in five years — wind power would save consumers £6.7 billion in a year — equivalent to £85 per home. By 2030, if the UK reaches its target of 40GW of offshore wind, this would jump to £26 billion, equivalent to £330 a home.

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gas was cheaper than every single renewable technology — now every single renewable technology is cheaper than gas. Hinkley point C, it turns out, was the deal of the decade.”

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The government agreed to pay £92 per megawatt hour to Hinkley when it starts running in 2027. The wholesale price of gas is more than double that.

Michael Grubb, professor of energy and climate change at University College London, who has advised the government on a new system, said in a recent article that the present pricing mechanism was “unconscionable”.

“Households are paying for their electricity several times what it now costs to generate and transmit it from the cleanest energy sources at scale,” he said. “It’s a bit like having to pay the peak-period price for every train journey you take.”

Joss Garman, of the European Climate Foundation, called on ministers to make the change as soon as possible. “It should be obvious that the more cheap renewable energy we make, and the less exposed we are to expensive gas prices, the more everyone’s bills can fall,” he said. “It is only bad policy that means this isn’t happening already.”

Simon Cran-McGreehin, head of analysis at the Energy and Climate Intelligence Unit, said: “The green levies that paid for the early wind farms kick-started a renewables industry that is



### **How does the system work?**

The price of electricity is set on the basis of so-called “marginal pricing” where the cost of the most expensive megawatt needed to meet demand sets the price for all generation.

Since renewables and nuclear run permanently, it is gas which sets the price almost all the time, because some gas plants are needed most of the time, and they won’t operate unless the electricity price is high enough to cover their operating cost.

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That system worked effectively when the price of gas was reasonably stable and cheap. The problem now is that gas prices have risen to such an extent that they are distorting the whole market.

### **Is gas still cheaper than renewable energy to produce electricity?**

No — it is estimated that current prices generating power from renewable energy is at least four times cheaper than gas while the cost of new nuclear generation is about half that of gas.

decouple the price of electricity from the cost of gas.

One model being looked at, devised by academics, is a mechanism which would aggregate long-term contracts with renewable energy generators and sell the power on to consumers. The price would mainly be set by the actual costs of generation, rather than gas-driven wholesale markets.

When there isn't enough renewable power being generated, or in future stored — like on cold and calm winter days — the green power pool would buy electricity from the wholesale market of gas generators for limited periods and quantities. To minimise those costs, contracts could give discounts to customers who can use electricity outside of peak times, or those with two-way electric vehicle connections who can sell power back to the grid.

However, the exact system the government will adopt has not been decided with “top-level options” due to be set out in the energy security strategy.

### **Would this save us money — if so, much?**

It would certainly save consumers money — but just how much is very hard to quantify. What it would do is bring to an end the windfall profits being made by some generators who are not being paid under the so-called contracts for difference system, which guarantees a price for electricity.

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It would also make the whole system more transparent

periods.

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**L Leonidas** • 8 HOURS AGO ...

This makes so much sense. As consumers, we have quite rightly been investing in the development of renewable energy resources for the last ten years, and offshore wind and solar as a result are now much cheaper than energy generated from gas. It's time we reaped the dividend in lower electricity pr...**See more**

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**M Miaow** • 1 HOUR AGO ...

Yep - I work in renewables and my provider is Ovo, who tell me that they are providing me with 100% renewable gas / electric. Quite why that pricing should then be linked to the wholesale gas market, has been a puzzle! We absolutely should be decoupling as it would also incentivise people to move t...**See more**

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**S Spocken** • 6 HOURS AGO ...

A windfall tax on power suppliers would have achieved the same political objective.

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**A Al Pacino** • 8 HOURS AGO ...

Good Lord - a policy at last. And one that prima facie looks sensible! Only concern is possible disincentive effects for new investment in renewable energy.... But it sounds like they are actually thinking carefullyfor once.

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**C Castle rock** • 7 MINUTES AGO ...

This is Boris and his cronies were talking about, if this policy seems sensible then it will never happen!

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**R Richard** • 3 HOURS AGO ...

April it was £8.05 and pre October 2021 £6.67. It went up to cover the cost of failed energy companies which should not have been trading regardless of the gas cost inc...**See more**

**S**y **Santa Claws** • 2 HOURS AGO [Recommend \(33\)](#) ...

100% agree. In my case the standing charge is already disproportionally high in comparison to the cost for consumption. This is taking away any incentive for me to continue in minimizing my energy consumption.

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**N**o se • 1 HOUR AGO ...

I agree, especially as the standing charges do not reflect the cost of upkeep of the pipes and cable infrastructure: they pay for the maladministration of the government in allowing gimcrack energy companies to set up without proper financial foundations. We are now paying for the millions of poun...**See more**

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**R**ichard Stout • 8 HOURS AGO ...

At long last they have realized that the energy market is broken (it was from the very beginning) and they are actually planning energy policy more than one year ahead. I'm afraid the devil is in the details though, and it's far too early to say if the new market design will work to lower net bills...**See more** *(Edited)*

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**M**ichael Davis • 3 HOURS AGO ...

I agree with your analysis of true cost of wind. My concern is that we are building an extra 40 GW of wind capacity on top of the 10 GW already built. Although the load factor is around 40%, on a windy day that can be obviously much higher which could with new wind capacity mean that in theory the ...**See more**

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**J**ames whelan • 5 HOURS AGO ...

It's broken. And your description is accurate. There would be no need for subsidies of unreliaibles if they

the overall price would increas...[See more](#)

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**N Noel Morris** • 5 HOURS AGO [...](#)

This is what happens when politicians and environmentalists combine with an oligopoly to effect a forward looking pricing policy on a gullible UK public. We need market pricing. The people who set the tariffs should hang their heads in shame. Having been asleep at the wheel for years OFGEM should b...[See more](#)

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**R R Man** • 3 HOURS AGO [...](#)

We have had market pricing in a monopoly - its dangerously expensive

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**S Strike a pose** • 1 HOUR AGO [...](#)

Not a sensible comment. California had market pricing in the 90s it ended up behaving like a monopoly.

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**I InNomineLiberatis** • 8 HOURS AGO [...](#)

What has to happen is a redistribution of wealth from the tiny percentage of people who have 97 per cent of the money to be shared amongst the rest of us.

I dont object to some being richer but the gulf is eye-watering.and ypu need go no further tha council leaders to meet ridiculous salaries and ...[See more](#)

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**M Mark Wells** • 8 HOURS AGO [...](#)

You seem to be in the wrong place, this is the Times not the Grauniad!

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**P Postgates cat** • 1 HOUR AGO [...](#)

The billionaires are few and far between. Much of the wealth is with those who have sacrificed everything to work likes

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**S Sue Pemberton** • 3 HOURS AGO [...](#)

We've been paying an inflated price for electricity and, only now, the government is planning to make it cheaper?

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**P Peter Humphreys** • 2 HOURS AGO [...](#)

As somebody who hasn't got gas (there are a few of us, you know), it has been frustrating watching my energy bills rising because of something I don't use directly. If the government get the reforms right (hah!), everybody should have a fairer system.

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**T T Shelby** • 7 HOURS AGO [...](#)

The first graph demonstrates the capacity for reducing energy bills that coal has, by filling the gap between gas and renewables/nuclear. Dig (and burn) for victory.

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**B Brian Redgewell** • 7 HOURS AGO [...](#)

But the "Boss" at Number 10 won't allow it. Her name is Carrie, I believe. *(Edited)*

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**G george Smith** • 3 HOURS AGO [...](#)

Best to check the statement regarding alternate energy being cheaper. If accurate, why are the electricity tariffs of some "green" providers higher than the cap?

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**S Santa Claws** • 2 HOURS AGO [...](#)

Because they can get away with it. The prices are never determined only by what the real cost for the supplier is, but by with what the 'market' allows them to (over) charge the end user. *(Edited)*

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