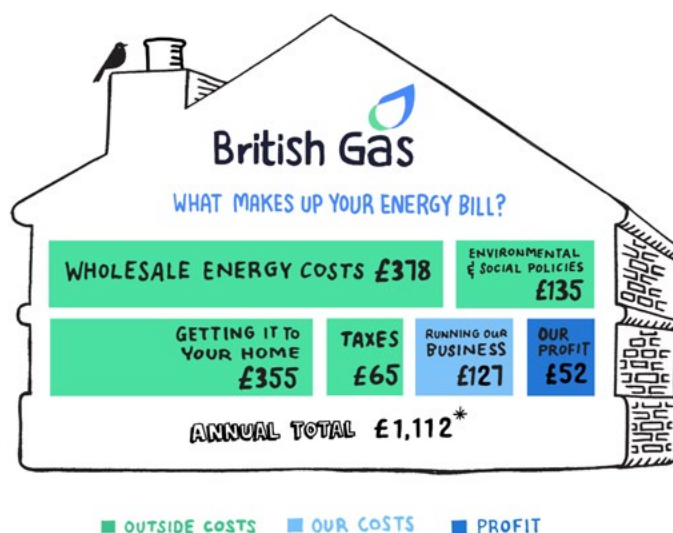


# What's in your energy bill?

## What's in the bill today?

Energy bills do not just include the cost of buying the energy itself. They are made up of lots of different parts, which change over time. This includes the costs to deliver energy to people's homes, Government environmental and social policies, taxes and then our own costs. This includes the profit we make and the money needed to run our business and employ the 29,000 people who work for us.

- In 2016, the average gas and electricity bill was £1,112. Of this, £52, or around 5% was the profit we made after tax.
- Our operating costs were £127. This is the amount of money we need to run our business and employ our staff.
- £65 on the bill was the tax we pay.
- Government policy costs, for things such as making people's homes more energy efficient, reducing carbon and supporting renewables, added £135 to the average bill in 2016. However this has increased significantly since then.
- The costs involved in delivering energy to our customers' homes added £355 to the bill.
- Finally, the actual price of buying the gas and electricity was £378, which is lower than it has been for the last few years.



\*Based on actual 2016 results, this is an average of all payment types/tariffs/regions and is based on consumption levels of 444 therms of gas and 3482 Kwh for electricity

## How are these costs changing?

Wholesale costs for gas and electricity move depending on the balance between supply and demand. These costs make up a large, but more recently a reducing, part of the household energy bill.

It's a decreasing part of the bill, especially for electricity because of the increasing cost of Government policies. These policies largely subsidise and fund a higher cost low carbon power generation system and other policy measures such as smart metering. According to independent public analysis by the Office of Budget Responsibility (OBR), some of the environmental and social policy costs are expected to rise by over 25% by 2021<sup>1</sup>.

## Is there a better way to pay for these policy costs?

We think it's worth looking at the alternatives. At the moment, the cost of these policies is added to your energy bill. But we think it could be paid for in a different way, such as out of taxes.

No one likes paying more tax, but under the present system, most of the cost of helping those who are struggling is paid for by people on lower incomes. We don't think that's fair on them. If the cost were paid for out of taxation, it would be a progressive tax policy, linked to ability to pay. We support the UK Government's environmental and social objectives. We just think there's a better and fairer way to pay for them.

By moving Government environmental and social costs into general taxation, we reckon some customers could save around £200 a year.

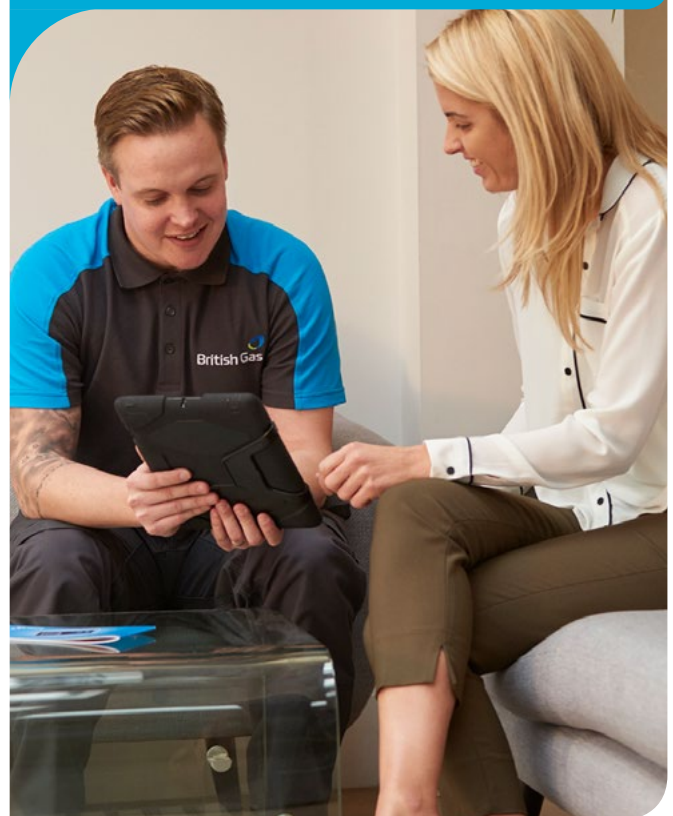
## How can energy bills be improved?

Regulation dictates most of what we have to include in our bills. But our customers tell us they want more straightforward bills that are personalised to their needs. Energy suppliers should be allowed by the regulator Ofgem to make their bills clearer and easier to understand.

## A fairer way to pay

An increasing proportion of the average household energy bill is outside suppliers' control and does not relate to the cost of buying energy on the wholesale markets. We believe these other costs need to be properly acknowledged and some should be removed from the bill altogether.

The way Government policy costs are paid for is regressive. By this we mean those who are worse off pay disproportionately more. We need to make the way that customers pay for energy costs fairer. As an example, in the UK, we have a tax system which means those who can afford to pay the most do so and those who are struggling pay less. Paying for policy costs a different way, such as out of general taxation, would reduce household energy bills far more effectively than the UK Government's proposed price cap.



<sup>1</sup> OBR March 2017. OBR provides a selected view of total and projected £bn policy costs (domestic and non-domestic). We have adjusted these numbers for domestic volumes and converted to calendar years.