

# Updated Household energy bills explained

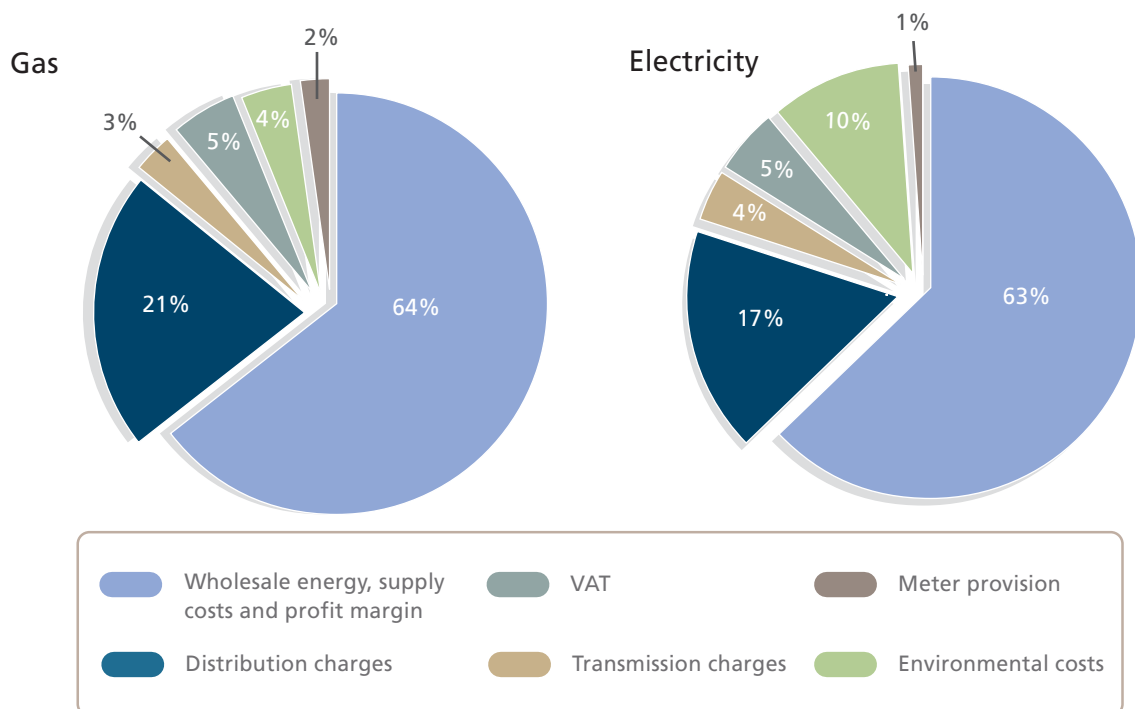
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Your household gas or electricity bill is made up of a number of elements. The following pages give more information about these, plus details of what you can expect to find on your bill and how you can make savings.

## ► What comprises the typical energy bill?

**Breakdown of gas and electricity bills. This reflects gas and electricity prices in January 2011. The average gas bill for a standard direct debit account is £608. For electricity it is £424.**



The average bills above are based on average annual consumption figures of 3,300 kWh for electricity and 16,500 kWh for gas, averaged across all big six suppliers and across Great Britain. We introduced these revised figures for typical household consumption on 17 January 2011. See Ofgem factsheet number 96: Typical Domestic Consumption Figures.

## ► The different elements of your bill explained

Element	% of gas bill	% of electricity bill	Description
<b>Wholesale energy, supply costs and profit margin</b>	64%	63%	<p>Wholesale energy: The cost of the gas or electricity. Your energy supplier may buy this on the wholesale market, or have a contract with a generator. Some suppliers are also part of companies that generate their own energy.</p> <p>Supply costs: The costs associated with running a retail sales business, including sales, billing etc.</p> <p>Profit margin: Profit made by the supplier.</p>
<b>Distribution charges*</b>	21%	17%	<p>The cost of building, maintaining and operating the local gas pipes and electricity wires, which deliver energy directly to your home.</p> <p>Suppliers are charged for this, and pass on these costs in the price they charge you for energy.</p>
<b>Transmission charges*</b>	3%	4%	<p>The cost of building, maintaining and operating the high pressure gas and high voltage transmission networks.</p> <p>Transmission companies charge users of these networks and these costs trickle down to retail customers.</p>
<p><b>* Ofgem sets price controls, which limit the total amount of revenue that distribution and transmission companies can earn. We use a new regulatory model, RIIO, to get the best value for you, the end customer.</b></p>			
<b>VAT</b>	5%	5%	<p>Value added tax.</p> <p>Paid directly to HM Customs by supplier.</p>
<b>Environmental costs</b>	4%	10%	<p>Government programmes to save energy, reduce emissions and tackle climate change.</p>
<b>Meter provision</b>	2%	1%	<p>The cost of your meter, plus installation and maintenance.</p>

## ► Wholesale costs and supplier profit margin

This part of the bill will vary from supplier to supplier and customer to customer.

Suppliers charge you a price for the gas and electricity that you use. Ofgem does not set energy prices. Great Britain has a retail market framework, which allows suppliers to set their own prices. But Ofgem does monitor supplier prices and profits, to ensure the market is competitive.

### How suppliers source their energy

The actual gas and electricity that is delivered to your home is the same, no matter which supplier you are with.

Suppliers buy electricity and gas either from the wholesale market, or directly from an electricity generator or gas producer. Some suppliers are part of companies which have their own generators / producers.

**(Wholesale costs and supplier profit margin continued)**

The energy sourced by suppliers is put directly into the transmission system. Energy moves from the transmission system to the distribution system, and then into your home.

It is the suppliers' responsibility to make sure that the energy they put into the transmission system matches the energy their customers use.

**Wholesale energy costs**

The cost of buying and producing electricity and gas are factored into your unit energy price and make up the largest part of your bill.

Wholesale energy prices and the cost of fuel for electricity generation can change frequently. Some energy is bought on the day, but a large amount can be bought well in advance. It is up to suppliers to balance their risk and make the best buying choices they can, based on what they think their needs and costs may be in the future. This process is known as 'hedging'.

Forward purchasing of energy by suppliers will tend to smooth the costs of energy passed on to customers. This keeps

consumer prices from rising and falling as frequently. Wholesale prices fluctuate daily, but in the past we have seen suppliers change retail prices around once or twice a year.

**Suppliers' costs and profit margin**

Suppliers incur costs from billing, sales, customer service and all the other activities that make up a retail business.

Ofgem publishes regular supply market reports which detail the relationship between suppliers' energy / business costs and retail prices. Following our 2008 Energy Supply Market Probe, we brought in new rules that mean suppliers have to publish separate financial information on supply costs and profits, further increasing transparency.

There are different costs associated with supplying different types of tariff. So the price that suppliers charge should also reflect the costs associated with that particular tariff.

Suppliers take into consideration all their costs (as outlined in our bill breakdown), then decide on a pricing strategy, to compete for customers in the market.

**► Network charges**

Ofgem sets price controls, which limit the total amount of revenue that gas and electricity network companies can earn.

We estimate that these companies need to invest over £30 billion in the next decade. This will:

- develop smarter networks
- increase security of supply
- help combat climate change

Ofgem has developed a new regulation model: RIIO (Revenue= Innovation + Incentives + Outputs).

We estimate that RIIO could mean customers pay up to

£1 billion less in the next 10 years, than they would have under the old regulatory model.

Our new approach pushes network companies to put customers and sustainability at the heart of everything they do. Companies will be rewarded for being efficient, innovative and responding to the needs of customers. Companies which don't meet these expectations will be penalised with reduced revenue.

This performance based model means that customers, who will bear a large part of the cost of the investment, will get the necessary investment at a fair price.

**► Environmental costs**

The government has put a number of environmental programmes in place. These give energy companies targets for reducing carbon emissions.

These are not itemised levies on your bill. But they do impact on the price suppliers charge you for your electricity and gas. However, some of these programmes will actually help save you money on your bill.

- Carbon Emissions Reduction Target (CERT)
- Community Energy Saving Programme (CESP)
- The Renewables Obligation (RO)
- Feed-in Tariff Scheme (FITs)

### ► How you can save money on your bills

No matter which supplier you are with, or which tariff you are on, you should be able to take actions to reduce your gas or electricity bill.

#### Energy Efficiency

You could look at energy efficiency measures, such as loft insulation, or a more efficient boiler. Some of the environmental programmes that you pay for through your bill mean that your supplier can offer you help and advice. So take advantage of this by asking your supplier what they can do to help.

Some suppliers have their own energy efficiency helplines. The Energy Saving Trust can also give you advice on energy efficiency: 0800 512 012

### ► What you can expect to find on your bills

All suppliers have to provide certain information on your bill. On each bill you should expect to see:

- your tariff
- how many units of electricity or gas you have used over the previous year (if you have been with your supplier for more than 12 months)

### ► Annual Energy Statements

New rules from Ofgem mean that suppliers have to provide you with an annual energy statement.

This could arrive on its own. Or it could form part of one of your bills.

Your energy statement provides valuable additional information on your energy use over the previous year. You will see:

- how many units of electricity or gas you have used over the last year
- the main terms of your contract

#### Meter Readings

You should regularly do your own meter readings, if at all possible. This will ensure that your supplier charges you for the actual amount of energy you have used.

#### Switching supplier or tariff

There are a range of tariffs to choose from, with a variety of prices and other options. Some tariffs include discounts for direct debits, dual fuel etc. Some may offer energy efficiency deals. When switching supplier, you should look at all aspects of the deal, before choosing the one that is right for you.

When switching, or using an online comparison site, make sure you have your recent bill or energy statement on hand.

It provides valuable information on your energy use and the type of deal you are currently on. It will help you make accurate comparisons with any alternative offer.

- a comparison of your consumption for the same period last year.
- how much you could expect to pay over the next year:

if you use the same amount of energy and stay on the same tariff, at the current price, with the same supplier.

- details of any premium or discount you have, compared with your supplier's standard direct debit tariff
- a reminder that you can switch supplier
- information about where you can get impartial advice about switching.

This will help you manage your energy use. You can see if any energy savings measures are needed. Armed with the information on your statement you can also shop around, to see if there are any better deals for you.

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