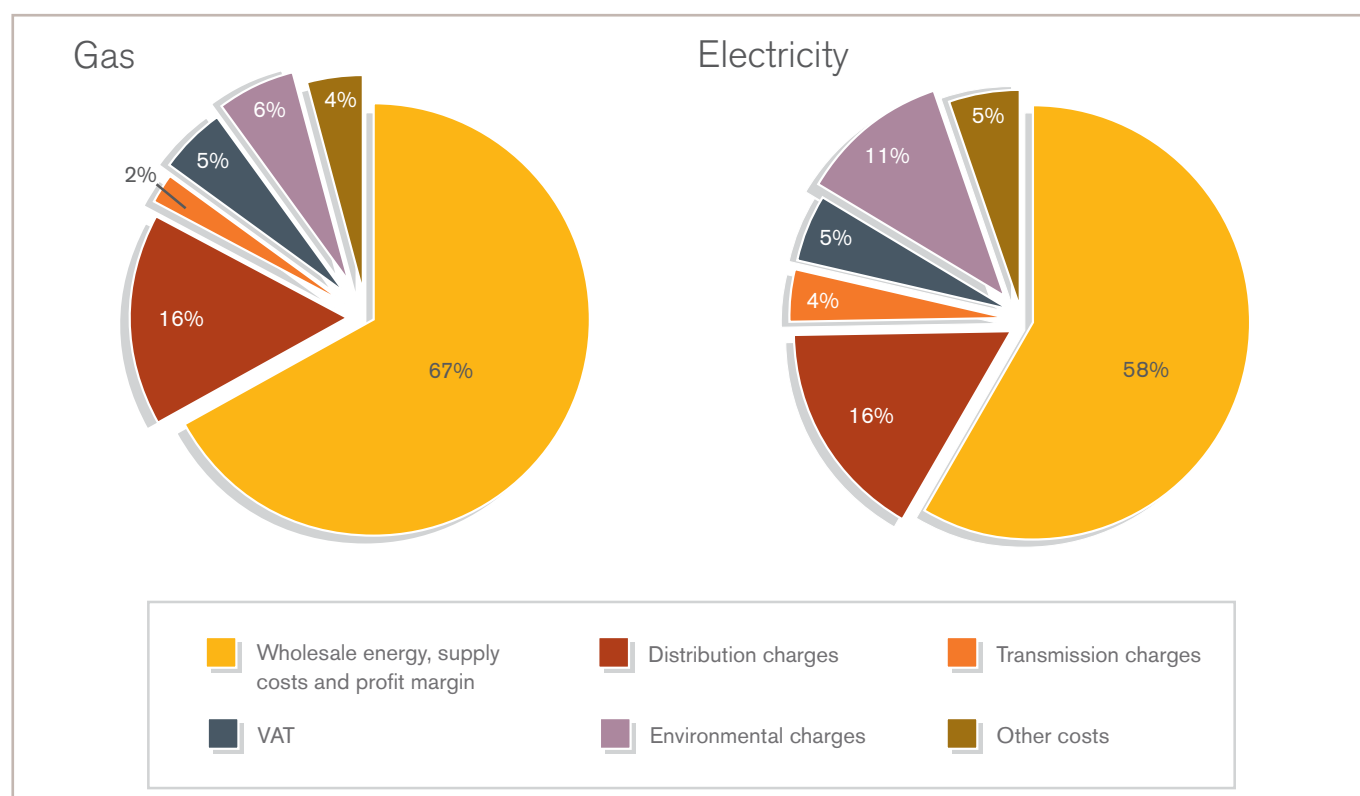


Updated Household energy bills explained

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 makes up the typical energy bill?

Below are the breakdowns for gas and electricity bills. They reflect gas and electricity prices in December 2012. The average gas bill for a standard account is £811 and for electricity it is £531. These prices are based on average annual consumption figures, averaged across all the former incumbent suppliers, all payment methods and averaged across Great Britain.



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. Please note that the numbers may not sum to 100% due to rounding.

Element	% of gas bill	% of electricity bill	Description
Wholesale energy, supply costs and profit margin	67%	58%	<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>Net margin: an indication of profitability made by the supplier. See Ofgem's weekly Supply Market Indicators report for latest details: http://www.ofgem.gov.uk/Markets/RetMkts/rmr/smr/Pages/indicators.aspx</p>
Distribution charges	16%	16%	<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>
Transmission charges*	2%	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>

*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.

VAT	5%	5%	<p>Value added tax.</p> <p>Paid directly to HM Customs by supplier.</p>
Environmental costs	6%	11%	<p>Government programmes to save energy, reduce emissions and tackle climate change (see break down opposite). Includes the cost of social programmes like the Warm Homes Discount.</p>
Other costs	4%	5%	<p>Extra costs covering meters (installation and maintenance), storing gas and balancing the electricity system.</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 operates a competitive retail market framework, which allows suppliers to set their own prices. But Ofgem does monitor suppliers' prices and profits.

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.

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'.

The value of the permits traded under the European Union Emissions Trading Scheme (EU ETS) have also increased the costs of generating power. The EU ETS puts a price on pollution emitted by electricity generators and heavy industry and this is automatically reflected in the wholesale price of power. Our current estimate is that the EU ETS adds between £9-16 to the wholesale power price.

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. There are also 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.

Ofgem publishes regular supply market reports which detail the relationship between suppliers' energy and non-energy costs and retail prices. Following our 2008 Energy Supply Probe we brought in new rules that mean suppliers have to publish separate financial information on supply costs and profit. In August 2012 we published our decision on changes to the Segmental Statements, which are intended to improve the transparency and cross-company comparability of the information. The 2011 results have been prepared by suppliers under the revised guidelines. To view the results please visit: <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents/1/Reporting%202011%20Results%20Overview%20text.pdf>

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:

- upgrade and renew Britain's gas and electricity networks
- connect new sources of energy generation
- increase security of supply

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

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 currently amount to around £82 on an annual bill. 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.

These programmes (which are administered by Ofgem) are:

Energy Company Obligation (ECO): A new domestic energy efficiency programme designed to create a legal obligation on certain energy suppliers to improve the energy efficiency of domestic households. ECO is estimated to cost a typical consumer £27 per fuel each year.

The Renewables Obligation: A Government support mechanism for promoting large scale renewable electricity projects in the UK. Ofgem's estimate is that the cost of this scheme this year is £21 out of your electricity bill (there is no impact on your gas bill for this programme). The cost of this scheme is expected to increase in April 2013.

Feed-in-Tariffs: Supports the switch from oil and gas fired heating systems to sustainable sources such as bio fuels, solar thermal panels, heat pumps and renewable combined heat and power. Ofgem estimates the cost of this programme is £6 out of your electricity bill (there is no impact on your gas bill for this programme).

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.

Payment Methods

You may be able to save money on your energy bills by prompt payment or by opting to pay by direct debit – more than half of consumers pay this way. Speak to your energy supplier about possible savings. Ofgem has produced a factsheet with more information about direct debits: http://www.ofgem.gov.uk/Media/FactSheets/Documents1/direct_debit_leaflet_oct_2012_WEB.pdf

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**

In January 2013 the Department for Energy and Climate Change is launching the Green Deal. The Green Deal enables many households and businesses to improve the energy efficiency of their properties. This scheme lets consumers pay for some or all of the improvements over time through their electricity bill. For further information on The Green Deal please visit: <http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/6634-the-green-deal-a-new-way-to-pay.pdf>

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.

Energy Best Deal

Ofgem and Citizens Advice have been working together since 2008 developing and delivering consumer advice through the Energy Best Deal campaign.

We have produced a series of seven short films covering the scheme's key messages - how you can reduce your energy costs and what help is available from both suppliers and

Government if you are struggling to pay your energy bills.

- shopping around for the best energy deal
- how to be energy efficient
- avoiding debt and disconnection
- dealing with sales people
- how to make a complaint
- getting help with your energy bills
- more money in your pocket – consumers talking about the savings they have made thanks to Energy Best Deal

The campaign works by holding practical presentations delivered to low income consumers and front-line staff who work with people at risk of fuel poverty. The campaign is run in England, Wales and Scotland by our partners.

For further information on Energy Best Deal, including written information on how to get the best deal for your circumstances, visit the consumer section of the Ofgem website.

Switching supplier or tariff

You can save money on your bills by switching supplier. If you want to switch you can use a price comparison site to see which deals may be cheaper. When you do this make sure you have a recent bill or your annual energy statement to hand. Suppliers are obliged by Ofgem to provide customers with annual energy statements which set out the key facts about their energy use. They also provide important information about the deal you are currently on. Using your bill and annual statement will help you make accurate comparisons with any alternative offer. However, if you prefer to stay with your current supplier you could talk to them to see if they have any cheaper tariffs than the one you are currently on.

Ofgem's current investigation into the energy supply market found that there are now around 900 tariffs available, which makes it difficult for consumers to compare them. We are proposing a package of reforms to make it easier for people to compare tariffs. This includes simplifying tariffs to help consumers more easily identify the best deal for them, rules to ensure suppliers treat customers fairly and ensuring information suppliers send consumers is in a clear and easily understood format.

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