Everything you need to know about the energy price cap and what it means for your bills

The energy price cap has dominated the news in recent months, as consumers watch nervously to find out how much higher their bills can go, but many of the driving forces behind the rises are beyond our control.

What is the price cap?

The price cap sets a limit on the amount suppliers can charge for each unit of gas and electricity used. It also sets a maximum daily standing charge (what you pay for your home to be connected to the grid).

Bills set to soar after price cap announcement – live updates

The overall figure is not a limit on what your total bill can be – it only reflects "typical" usage. So if you use more energy, you will pay more. If you use less, you'll pay less.

The price cap affects customers in England, Scotland, and Wales. In Northern Ireland, suppliers can adjust prices when they want, as long as it is approved by the Utility Regulator.

How often is the price cap reviewed?

The price cap was reviewed twice a year but from October it will be reviewed quarterly, meaning that any rise or fall in prices can be passed on more quickly to customers.

Regulator Ofgem says this is to minimise the number of suppliers going bust – dozens have failed in the past few years.

But in August, Christine Farnish **stepped down from Ofgem's board**, telling The Times she did not believe Ofgem had "struck the right balance between the interest of consumers and the interests of suppliers".

Who is impacted by the price cap?

The price cap applies to default tariffs, also known as standard variable tariffs or SVTs.

You will be on one of these tariffs if your fixed tariff ended, and you did not sign up for a new one, if you've never switched your energy tariff, if you were with a supplier that went bust, and if you have recently moved home (although some suppliers allow you to transfer fixed deals, so check).

If you are on a fixed tariff, you are not affected by the price cap. There is also a separate price cap for households on prepayment meters, and this is reviewed quarterly.

Ofgem estimates that 22 million households are on a variable tariff, but this will increase as more people come off fixed tariffs and realise that finding another one is not so easy (more on that later).

Is the price cap still a good thing?

Some are starting to wonder if the price cap has had its day.

Among them is Dr Craig Lowrey, principal consultant at Cornwall Insight. Cornwall Insight is an energy consultancy with a good track record of forecasting the price cap.

Earlier in August, Dr Lowrey said: "…It may be time to consider the cap's place altogether."

He added: "After all, if it is not controlling consumer prices, and is damaging suppliers' business models, we must wonder if it is fit for purpose – especially in these times of unprecedented energy market conditions."

What is included in my energy bill?

At the price cap announcement in October 2021, bills were broken down as follows: 36% wholesale costs; 25.35% network costs; 18.62% operating costs; 15.33% environmental & social costs; VAT 4.76%; 2.24% other costs; 0.93% supplier pre-tax profit margin.

The environmental and social costs include projects to help decarbonise energy supply such as improving home insulation.

The social costs include schemes to help vulnerable customers, such as the Warm Homes Discount which provides a rebate of around £140 to more than 1.5 million people on certain benefits.

But it is the increase in wholesale gas prices that is driving the increase in energy bills right now.

Why are wholesale gas prices rising?

Yes, you've heard this many times – it's the war in Ukraine. But there are other factors too, including a cold winter in Europe last year which drained reserves, and an increase in demand from Asia, especially China.

The UK hardly gets any of its gas from Russia, so why are our prices affected?

That's true – Russia accounted for only 6% of the UK's gas imports and 8% of oil imports in 2019, according to the Office for Budget Responsibility. And on Wednesday, the Office for National Statistics said that Britain **did not import any fuel from Russia in June**, for the first time on record.

But Russia is a major supplier of energy to the world – it accounted for 17% of gas and 12% of oil production globally in 2019. And when some countries decided they would stop using Russian supplies, they found themselves competing for what remains on world markets. It then comes down to supply and demand.

The UK has to purchase its oil and gas at market prices and, due to factors such as the war, those prices have rocketed.

Will I pay less if I just don't send a meter reading?

If you don't send a meter reading, the supplier will bill you based on how much energy it thinks you have used – an estimate.

Yes, this could be less than what you have actually used, but eventually the supplier will send someone out to get a reading, and you will have to pay the difference anyway.

Of course, the estimates could also be more than you actually use – so you will be over-paying.

With all of this in mind, it is always best to send regular meter readings.

What about the campaigns encouraging people not to pay their energy bills?

Many people are already struggling to pay their energy bills and the forecasts for the coming year – the price cap is **expected to pass £5,300 in April** – are scary.

But think very carefully before cancelling your direct debit, as it is not without risks. There are a number of things you should consider – they are covered in **our earlier piece here**.

HOW ARE RISING PRICES AFFECTING YOU?

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What government help is there?

Measures already announced include a £400 discount on energy bills for every household from October, with further help for those deemed vulnerable, such as pensioners and the disabled.

Rishi Sunak and Liz Truss – both vying to replace Boris Johnson as prime minister – have put forward a few ideas, but we will have to wait until the result of the leadership contest is announced on 5 September to see what might come of these.

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What if I fix my tariff?

Fixing your tariff will give you certainty – you’ll know the price you will be charged for each unit and the standing charge for the length of your contract. You won’t be affected by the price cap during this time.

In recent years, consumers have always been best-off on a fixed tariff, but that has changed – there are no tariffs meaningfully cheaper than the current price cap.

What you could try to do is find a fixed tariff that is cheaper than the forecasts for future price caps. Remember this means that you're looking about a year ahead.

Money-saving expert Martin Lewis has some good advice for how to go about this, and he says that if you're offered a year-long fixed tariff at no more than 115% above your current price-capped tariff – or 120% more if you strongly value budgeting certainty – then it is worth considering.

Most of the best fixed tariffs will only be offered by suppliers to current customers, so it is always worth checking to see what your supplier has available. Just don't get your hopes up.

I'm struggling to pay my bills. What can I do?

If you can't pay your energy bills – or any other type of household bill, for that matter – don't ignore it.

Your first step should be to contact your supplier – the earlier, the better. They must offer you a payment plan you can afford, according to regulator Ofgem's website.

You could also talk to a debt management charity such as StepChange, or contact Citizens Advice.