The energy price cap has fallen but the real winner is the government

Ofgem has lowered its cap on the amount energy companies can charge for gas and electricity but it's not all good news.

Even though wholesale energy prices have been falling, households will see their bills go up from April as the government support that has been shielding us from the worst of the energy crisis is reduced.

The energy regulator today announced that it will **reduce the amount it will allow energy companies to charge** per unit of electricity and gas from April.

For a typical household, this would mean bills falling from £4,279 a year to £3,280

However, bills will actually be increasing because at present the theoretical "typical household" pays only £2,500 because the government has been absorbing the rest through its energy price guarantee (EPG).

The government is planning to raise the threshold of the EPG from £2,500 to £3,000.

At the same time the £400 energy rebate scheme, which was paid in instalments to all households from October, will come to an end. This means some households could see their bills rise by as much as 40% per year.

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The real winner is the Treasury, which will gain some headroom ahead of the budget next month.

Analysts at Cornwall Insight **expect the cost of the scheme** to fall to zero from July as the price cap falls below the £3,000 threshold.

At the time of the autumn budget last year, the Treasury expected its EPG to cost £12.8bn in the 2023 to 2024 financial year but falling wholesale prices have taken that figure down to just £1.5bn.

That's a saving of 90%.

Pressure to maintain support

The huge saving has put pressure on the chancellor to maintain the level of support that is currently being offered to households.

Campaigners and poverty charities have urged him to maintain the threshold at £2,500 to prevent a spike in fuel poverty.

National Energy Action, a charity, predicts that the number of fuel poor households will rise from 6.7 million to 8.4 million from April if the government reduces the support.

Maintaining the £2,500 cap will cost the Treasury an extra £3bn.

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Analysts at the Resolution Foundation think tank said: “Even if the chancellor chooses to iron this temporary bill rise out, the cost of the EPG in 2023 to 24 will still have fallen by around two-thirds (65%) since last November.”

Yet, the Treasury will have to balance this against falling tax revenues from oil and gas producers and generators, which could lower its intake by £7bn.

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From December 2020: ‘Energy price increases are killing people’

Inflationary impacts

It will also have to consider the impact on inflation.

The EPG is untargeted, with all households getting support irrespective of their income.

Some economists fear that this could increase inflation because households will have more money to spend on goods and services.

It’s a balancing act because in the short term lower energy bills will help dampen inflation. Some economists have suggested that it would be wiser for the government to offer more targeted support to poorer households to help mitigate against this risk.