

REPLY BY THE PRESIDENT OF THE POLICY & RESOURCES COMMITTEE TO A QUESTION  
ASKED PURSUANT TO RULE 14 OF THE RULES OF PROCEDURE BY DEPUTY GAVIN ST PIER

Question 1

**With UK energy consultancies forecasting that average UK household energy bills could rise to approximately £3,400 per year in October 2022 and £4,200 in January 2023, can the Committee provide any comparable forecast of the average annual Guernsey household energy bill and how this compares with the last 12 months?**

**1. Notes on the data source for the quoted UK figures**

The UK figures quoted, which have been widely used in the UK media appear to be sourced from a report issued on or around 12 August by Cornwall Insights, a consultancy firm providing independent analysis to businesses in the energy market. While widely reference and linked in various places, the full report no longer appears active on their website. All information quoted from the report is therefore drawn from secondary sources.

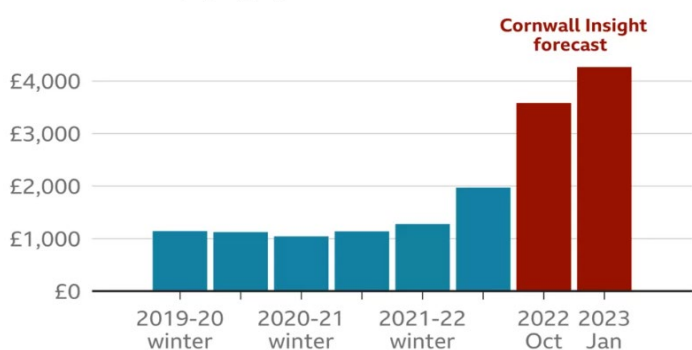
The report relates to Cornwall Insights forecasts of the UK energy “price cap” which determines the maximum tariffs payable for domestic customers for Electricity and Gas supplies. According to the BBC<sup>1</sup>, Ofgem (the UK energy regulator) said no forecast for next year could be “robust” at this stage and had “limited value”. Ofgem warned wholesale prices were moving so quickly that future forecasts were not reliable.

*“We cannot stop others from making predictions, but we would ask that extreme caution is applied to any predictions for the price cap in January or beyond.”*

Cornwall Insights forecasts have at times differed quite significantly to the indications provided by Ofgem themselves although the eventual increase in the cap applied from 1 October 2022 announced on 26 August was very similar to the Cornwall Insights forecast. There are a number of other forecasts have been published by various consultancy firms.

**Energy price cap forecast to rise to £4,266**

Annual bill for a typical household on a price capped dual-fuel tariff paying by direct debit



Source: Ofgem/Cornwall Insight

BBC

**Readers are therefore asked to treat both the UK forecasts and the local forecasts provided in this response with an appropriate degree of caution.**

<sup>1</sup> [Energy bills forecast to hit over £4,200 a year - BBC News](#)

## 2. Forecasts of local energy prices

Below are forecasts of local “average” household energy costs. These are calculated by taking the average energy costs determined in the 2018/19 Household Expenditure Survey and inflating these costs by item specific price indices, used within the calculation of the Retail Prices Indices. Forecasts are produced using a combination of price rises already announced (i.e. the increase in electricity prices applied from 1 July) and expectations of price rises based on global forecasts of oil and gas prices. There is a significant degree of uncertainty around the future price rises, particularly in the current climate, and the reality may prove very different from the forecasts.

Readers should specifically note:

- The “average” Guernsey household is assumed to experience a composite of electricity, gas and oil costs. In reality, most households use only one or two energy sources. The actual cost of energy faced by households also depends on a wide range of factors including the types of energy they use, the size and energy efficiency of their accommodation and their lifestyle and habits.
- It has not been possible to determine the definition of an average household in the Cornwall Insights report, although it would appear they are based on average consumption data rather than household spend.
- UK forecasts only cover electricity and gas supplies. Domestic heating oil is not subject to the same regulation and its use is much less common in the UK than in Guernsey. Domestic heating oil is included in the Guernsey forecasts.
- Forecasts of prices in Guernsey cover the commercial pricing decisions of a very small number of individual companies, whose pricing strategy will be subject to a whole range of commercial pressures beyond the wholesale price of fuels.
- Global forecasts of oil and gas prices are themselves subject to a high degree of uncertainty, particularly during periods of high volatility such as are currently faced.

For the reasons outlined above:

- **Cost estimates will not represent the actual experience of any individual household**
- **Forecasts presented may not be directly comparable with the figures presented for the UK**
- **Forecasts are subject to a very high degree of uncertainty and should be treated with a high level of caution.**

Table 1: Average household energy costs

	Historic				Forecast	
	Oct-21		Apr-22		Oct-22	Jan-23
<b>Cornwall Insight forecasts of UK annual bill for a typical household on a price capped dual-fuel tariff (electricity and gas)</b>	£1,277		£1,971		£3,582	£4,266
<b>Guernsey forecasts for an average household (electricity, gas and domestic heating oil)</b>	<b>Sept-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Central Forecast	£2,057	£2,140	£2,253	£2,429	£2,449	£2,466
Low Forecast	£2,057	£2,140	£2,253	£2,429	£2,415	£2,410
High Forecast	£2,057	£2,140	£2,253	£2,429	£2,605	£2,589

### 3. Why are the forecasts so different from the UK?

There are several reasons why the energy price forecasts in Guernsey look very different to those published for the UK:

#### The functioning of the UK energy price cap

The UK price cap was introduced in 2019 to address an identified “loyalty penalty”, which meant that those households without the means or inclination to move electricity and/or gas provider often paid significantly more than those who shopped around. The cap set maximum tariffs which could be applied to domestic customers. Over a relatively short period, domestic energy prices across all providers gradually tended to move towards the price cap.

As wholesale gas and oil prices began increasing over late 2021 and early 2022 the effect of the cap was to limit the ability of providers to increase prices to match their costs. As a result, in the last quarter of 2021 the market began to destabilise. By mid-February 2022, 31 suppliers failed affecting 2 million customers<sup>2</sup>. It became necessary to significantly increase the price cap in April 2022 to prevent further collapse. This resulted in an immediate and essentially universal step change in domestic energy prices from all providers. UK CPI data showed that UK domestic gas prices had almost doubled within the 12-month period ending July; electricity prices had increased by more than 50%. A similar step change is likely to happen if the cap is increased further in Q3.

Energy prices in Guernsey are not controlled in the same way. Because of the cable link to France electricity prices were low relative to the UK prior to the current period of inflation and gas prices were relatively high. While the higher base price of gas and the inclusion of domestic heating oil has meant that the average energy cost for households in Guernsey appears to have begun at a higher point, it also means that the market was not endangered by the sudden increase in natural gas prices to the same extent. Domestic gas prices in Guernsey were last increased in October 2021 (shortly after UK energy firms began to fold in significant numbers) by 16% and no increases have yet been made outside the typical annual price review process.

<sup>2</sup> [Which UK energy suppliers have gone bust? – Forbes Advisor UK](#)

## **The generation of electricity**

Around 36% of UK electricity is generated from gas<sup>3</sup>. This means that electricity prices are subject to pressures from the global price of gas and these are the most volatile element in the current energy market. As of 16 August, the global price of natural gas had increased by more than 200% against the previous year<sup>4</sup>.

Guernsey imports the vast majority of its electricity via a cable link with France. The French grid is predominantly sourced from nuclear generation and is therefore far less subject to the fluctuations in oil and gas prices. Further, there are commercial agreements in place until the end of 2024 which fix the wholesale price paid for the majority of imported electricity. An increase in electricity prices was applied from 1 July 2022 to cover capital costs, but that was a relatively modest (in the current context) 9% for most domestic customers. Guernsey Electricity have themselves published reassurance that their customers should not be subject to the level of price rises experienced in the UK<sup>5</sup>.

## **The use of LPG as opposed to natural gas**

As highlighted in a statement made by Jo Cox, CEO of the Island Energy Group, on 3 September 2022, Guernsey uses LPG rather than the natural gas which is typically referred to in the UK. LPG gas has not seen the same cost increase as other natural gases allowing a greater stability in pricing. Following a 16.9% increase for customers last October, Islands Energy has indicated that it has no intention to increase prices further, dependent on global market conditions and the wholesale price of liquid petroleum gas.

## **The inclusion of oil and the balance of energy use**

The use of domestic heating oil is unusual in the UK (to the extent that it is rarely mentioned in discussions around energy costs) and much more common in Guernsey where it comprises a significant proportion of the “average” cost. Global oil prices have begun to fall from the recent peak and this should feed through to domestic prices (as evidenced by a slight reduction in the pump price of motor fuels in recent weeks)<sup>6</sup>.

Household expenditure data also shows that Guernsey’s domestic energy market includes a higher proportion of electricity usage and a lower proportion of gas usage than the UK.

---

<sup>3</sup> [UK Energy in Brief 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

<sup>4</sup> [Gasoline - 2022 Data - 2005-2021 Historical - 2023 Forecast - Price - Quote - Chart \(tradingeconomics.com\)](https://tradingeconomics.com)

<sup>5</sup> [Will Guernsey be affected by the energy crisis in Europe? | Guernsey Electricity](https://www.guernseyelectricity.com)

<sup>6</sup> [Crude oil - 2022 Data - 1983-2021 Historical - 2023 Forecast - Price - Quote - Chart \(tradingeconomics.com\)](https://tradingeconomics.com)