MC2022/14718

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Sir George Howarth MP
House of Commons
London
SW1A 0AA

31 August 2022

Dear Sir George,

Thank you for your email of 28 July to the Chancellor of the Exchequer enclosing correspondence from your constituents, regarding the cost of living. I am replying as the Minister responsible for this policy area. I am sorry for the delay in my response.

The Government recognises that millions of households are facing cost of living pressures. This is why we are providing over £37 billion of support this year, targeted at those with the greatest need. As a result, millions of vulnerable households will receive at least £1,200 of support, with the vast majority of households receiving at least £550.

In response to high fuel prices, the Government announced a temporary 12-month cut to duty on petrol and diesel of 5 pence per litre at Spring Statement 2022. This is the largest cash-terms cut across all fuel duty rates at once, ever, and is only the second time in 20 years that main rates of petrol and diesel have been cut. This cut represents savings for households and businesses worth around £2.4 billion in 2022-23.

Drivers should be getting a fair deal for fuel across the UK. The Government has been clear that we expect all those in the supply chain to pass through the cut to consumers buying fuel at the pump.

In June, the Business Secretary requested that the independent Competition and Markets Authority (CMA) undertake an urgent review of the market for road fuel. The CMA's initial findings suggest that the fuel duty cut appears to have been largely passed through, with the largest fuel retailers doing so immediately and others more gradually.

The Government fully supports the CMA in its further work to better understand the supply of road fuel in the UK and will await these findings. The Government will continue to monitor fuel prices closely.

On the cost of Green Levies, environmental and social policy costs represent around 8 per cent of the average dual energy bill; however, over the past 10 years their net effect has been to reduce consumer energy bills. Due to the way we have invested in renewables and energy efficiency, UK demand for natural gas has fallen 26 per cent since 2010.

This has helped reduce our exposure to global price volatility. While the majority of these costs represent contractual obligations to fund previous investments in renewables, we are ensuring our green policies are fit for future, and the Government keeps all costs on bills under review.

With regards to a VAT cut on energy bills on road fuel, VAT is a broad-based tax on consumption and the 20 per cent standard rate applies to most goods and services. While there are exceptions to the standard rate, these have always been limited by both legal and fiscal considerations. Domestic fuels such as gas, electricity, and heating oil already subject to the reduced rate of 5 per cent of VAT.

Turning to your constituents' point on an energy price cap for direct debit and pre-payment customers, the Government introduced the Domestic Gas and Electricity (Tariff Cap) Act in 2019, which requires the energy regulator Ofgem to cap default energy tariffs. The cap limits the amount energy suppliers can charge for each unit of gas and electricity, as well as the maximum standing charge consumers pay for access to the grid. It applies to every consumer on a default tariff. The cap remains a true and fair reflection of the cost of energy and protects consumers against excessive pricing.

The large profits publicised recently are primarily from energy generators. The Government is introducing the Energy Profits Levy, a new 25 per cent surcharge on the extraordinary profits of oil and gas generators. This will raise around £5 billion over the next year, which will go towards supporting households with the cost of living.

The price cap affects energy suppliers, but it does not directly affect generators. In 2021 and early 2022, the price cap forced many suppliers to sell energy to households at a significant loss. If the next price caps were set artificially low, energy suppliers may not be unable to absorb the losses and remain in the market. It is normal for some suppliers to enter and exit the energy market without serious impacts for consumers. However, if many suppliers left at once it would be costly to ensure their customers' needs were met. This cost would ultimately be paid by either consumers or taxpayers and entrench higher costs for the future.

Please pass on my thanks to your constituents for taking the time to make us aware of their concerns.

Yours sincerely,

Alan Mak MP
EXCHEQUER SECRETARY TO THE TREASURY