

Household annual electricity bills will increase by nearly £200 by 2025, driven by rising wholesale and policy costs

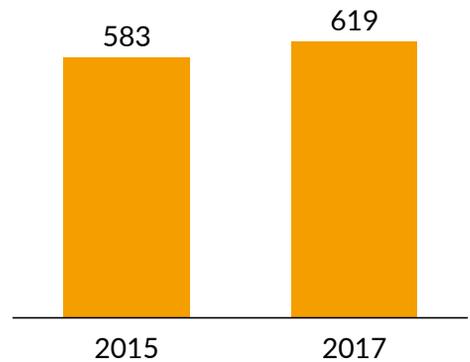
Conclusions

- Household electricity bills are projected to increase by nearly a third to £807 per annum by 2025
- Driven by a rise in low carbon subsidies, policy costs will account for more than a quarter of household electricity bills, increasing by £70 per annum between now and 2025
- Wholesale electricity costs are expected to increase by 30% by 2025, predominantly driven by a rise in gas prices

Household electricity bills have increased by 2% p.a. in recent years

- Electricity bills increased by 2% per annum in the last 3 years
- Government has introduced a price cap for vulnerable customers, with plans to extend this to 11 million households
- At the same time, an increase in wholesale prices and the cost of Government policies led to Ofgem having to raise the price cap by £57 per household in April 2018

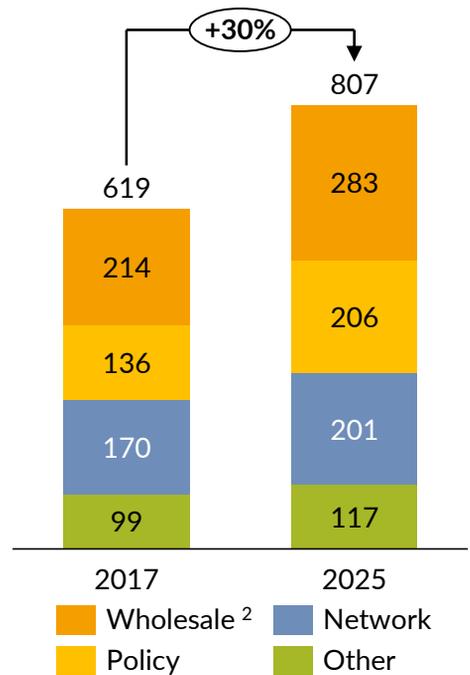
Household electricity bill¹, £ per annum, nominal



Projected increase in policy and wholesale costs provides little respite

- Average household electricity bills are estimated to increase by nearly a third, or £188 per annum, by 2025
- With payments to low carbon technologies doubling to £15 billion per year by 2025, policy costs will reach £206 or more than a quarter of total household spending on power
- As commodity markets recover, Aurora projects wholesale electricity costs to increase by the mid 2020s, further increasing the annual household electricity bill by £69
- Ofgem’s RII0-2 price control on network companies is expected to limit the increase in network costs
- Despite expected energy efficiency gains³, the average household electricity bill in 2025 will be nearly £810 per annum, a year-on-year increase of 3.2%
- This will mean that, under the price cap model, Ofgem will have little choice but to allow repeated increases in energy prices for the foreseeable future

Household electricity bill³, £ per annum, nominal



1. Bills calculated assuming an annual consumption of 3,800 kWh. 2. Based on Aurora’s internal forecast of wholesale prices. 3. Assumes a 7% fall in demand per household between 2017 and to 2025, based on National Grid’s Slow Progression scenario 2017 and DCLG household forecasts.

Sources: Ofgem, BEIS, National Grid, DCLG