Frozen in place

Why we need urgent action to address energy affordability

citizens advice

February 2025

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Executive summary

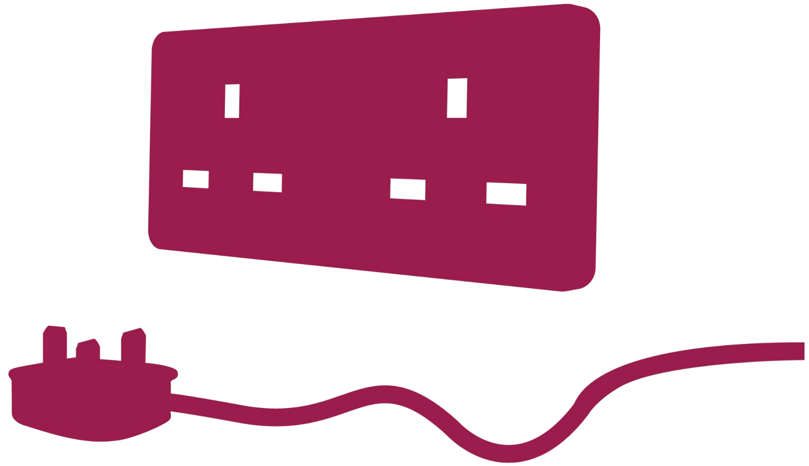
The Labour government came to power last year with ambitious plans for their first term: to improve living standards, deliver clean power by 2030, and tackle child poverty. They inherited a challenging situation, with energy prices stubbornly high and record levels of household energy debt built up during the crisis.

To recover living standards for those on low-incomes and in particular households with children, the government must introduce targeted bill support. While the 2030 Clean Power Action Plan[1] should deliver decarbonised energy while bringing prices down in the longer term - without targeted support some low-income households face higher bills in the shorter term, driven by the volatile cost of gas.

Over 3 years since the energy crisis began, prices are lower than their peak but still far higher than historic norms. Households have struggled to recover, and many have faced a particularly difficult first winter under the new government. To understand how people are faring we commissioned nationally representative polling[2]. The picture is clear - millions of households have struggled to recover and face little prospect of doing so in the medium term.

As the winter draws to a close:

- 3 in 10 (30%) said that they find it difficult to afford their energy bills, equal to over 8 million households.
- Nearly two thirds (63%) of people in energy debt said that they had had to ration their energy, including switching off or turning down their heating or water in the past year as a result of their debt, equal to 4.2 million people in these households.
- More than a quarter of people on prepayment meters (29%) have been disconnected from their energy supply in the past year because they couldn’t afford to top up. That’s equal to 2.8 million people in those households.



If prices returned to pre-crisis levels this might provide some relief, but it doesn't look like this is likely to happen any time soon. In fact, the average bill under the price cap will increase by £111 to £1,849 from April, and could rise further in July. In recent years prices have fallen in spring and summer, but this year it looks as if there won't be a similar respite[3].

The government previously suggested it could bring energy prices down by £300 by 2030[4], but this would still mean bills around 30% higher than historic norms[5]. At the same time, continuing geopolitical instability means that gas prices are likely to remain volatile, and while work is underway to increase energy independence, at the moment the United Kingdom remains vulnerable to external price shocks.

We asked people about **their ability to afford their energy over the next 5 years** if prices remain the same:

- Nearly 2 in 5 (39%) said that this would impact their ability to afford essentials such as food, rent, and bills. That equates to more than 10.9 million households.
- Of those, 31% said that it would make it more difficult to keep up with their housing payments (mortgage or rent payments) - equivalent to 3.33 million households.

While the energy crisis has had financial consequences for the majority of people, we know that some groups are faring worse than others.

The evidence from our polling shows that households with children are finding it particularly hard: 60% of bill payers in households with children - **equating to 4.7 million households** - are concerned about affording their energy over the coming year, compared to 45% of households with no children.

The government's commitment to tackling child poverty is welcome - reversing the trend of growing child poverty is an urgent need. The government will not be able to tackle child poverty without finding a way to ensure that those families in-need have enough support to cover the basics.

The simplest way to do this would be by reforming the existing Warm Home Discount (WHD) scheme, so that it reaches more households on eligible benefits and provided more support for households with the highest energy usage. It could also provide a guaranteed 'safeguard' payment for all low income households with children.

There are problems to solve before a reformed WHD can be introduced. This includes introducing new scheme rules, and enabling more data matching for targeted support. This can also unlock wider support, like Ofgem's proposed debt relief scheme and support in other essential markets[6]. Rapid progress on data matching and a new consultation on support will be the tests of whether the government is serious about improving support for people by next winter.

As this report was published the government published new proposals that would deliver the Warm Home Discount to a wider group of customers next winter[7]

We are in the middle of an unprecedented energy debt crisis

As incomes fail to keep up with essential costs year on year, an energy debt crisis has taken hold.

- In our survey this January, 10% of respondents reported being in energy debt to their supplier - that's equivalent to 6.7 million people in households that are in energy debt.
- In 2024 our advisers helped more than 90,000 people with energy debts, more than any other year on record[8]. This is a trend that we're also seeing reflected in our polling.

People in energy debt can experience significant financial, social, and health consequences as a result of their indebtedness. For people struggling to repay their energy debts, or trying to avoid falling further into debt, it can cause people to fall behind on other essential bills and even go without food or other essential costs. It can also leave people more vulnerable to dangerous energy rationing or (for people with prepayment meters) self-disconnection as a way to manage their financial burden.

Our survey found that:

- 63% of people in energy debt said that they had resorted to energy rationing - turning their heating or hot water down or off or skipping showers. That's almost 1.8 million households, or more than 4.2 million people.

Beyond the considerable impact of debt on individual consumers, high levels of indebtedness leads to poor outcomes for all consumers. The cost of debt which is deemed to be unrecoverable, or bad debt, is paid for through the price cap and ultimately ends up on consumers' bills. The additional bad debt allowance in the price cap currently adds around £28 to the average bill[9].

People who have an energy debt can also be blocked from switching to another supplier[10]. This can prevent them from engaging with the market, including with low carbon energy products and services that can support the net zero transition.

Jakob's story[11]

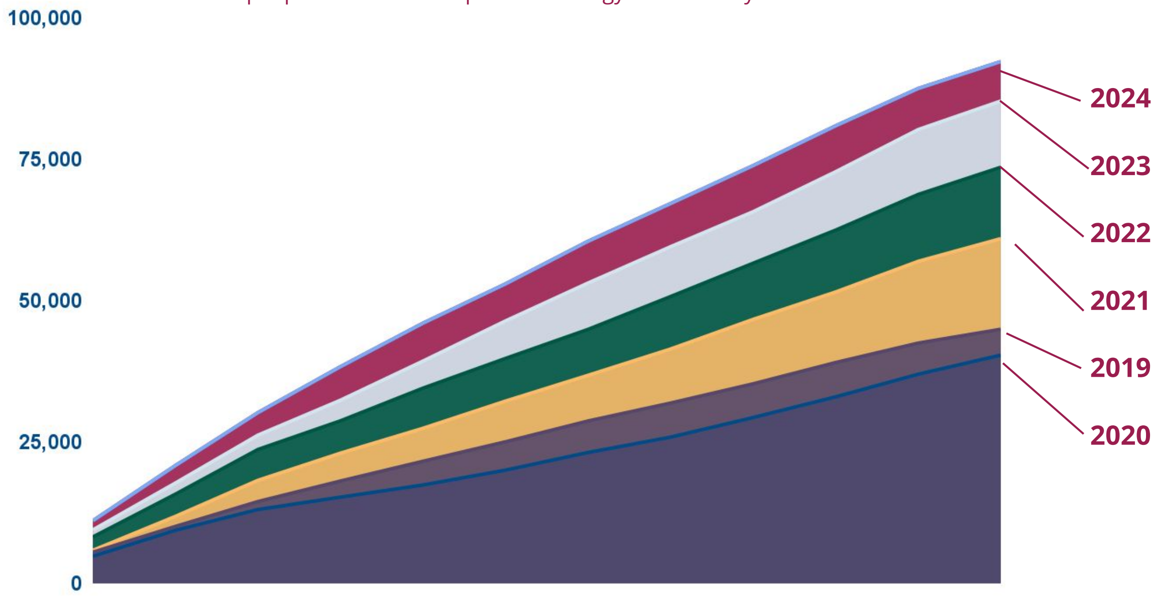
Jakob is a single parent of three children who only receives financial support for two due to the two child limit[10]. This has left Jakob struggling to manage household expenses, resulting in a monthly deficit of £224. This shortfall, combined with rising living costs, has forced him to rely on family support and fall into significant debt, including over £4,000 in gas and electric arrears. His mental health, affected by anxiety and depression, makes it difficult to manage their finances and seek solutions. The stress of these debts and inadequate financial support has contributed to his deteriorating mental health.

We are in the middle of an unprecedented energy debt crisis

In December last year Ofgem started consulting on a one-off debt relief scheme, which could write off some or all of the debt of some people who built up debts during the height of the energy crisis[12]. This is a welcome step, and could relieve a significant burden on households in need. But energy remains unaffordable for millions. Without accompanying long-term targeted support for energy bills, debt levels may simply start to rise again.

Last year we helped more people with energy debts than any other year

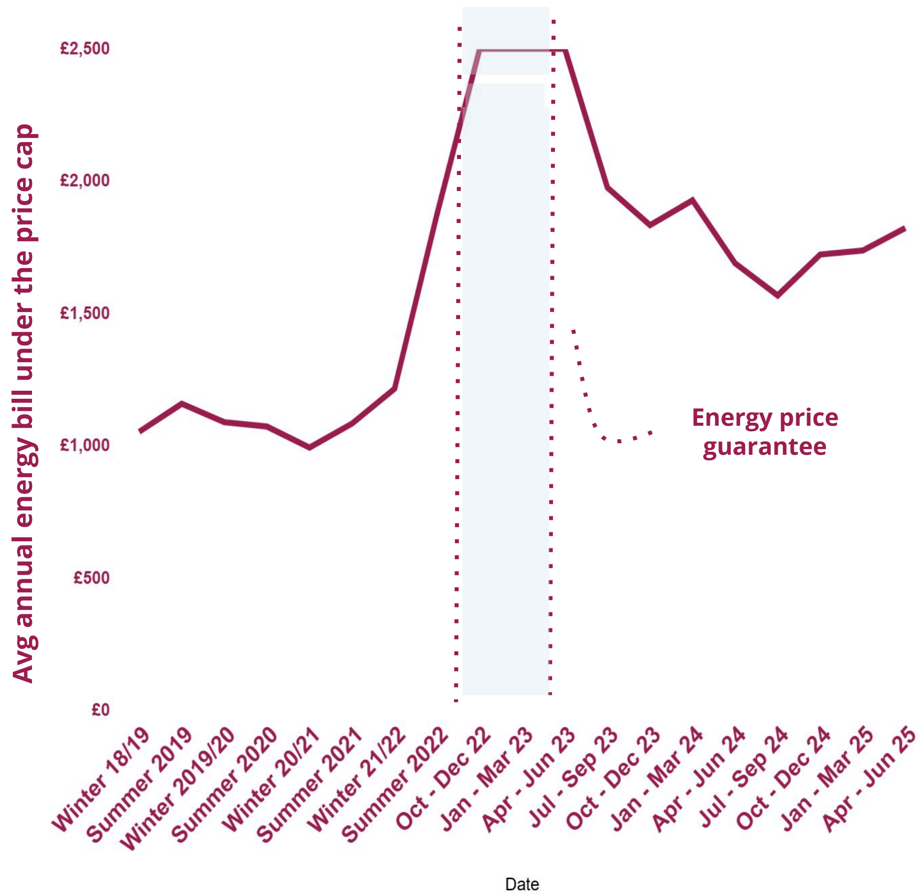
Cumulative number of people our service helped with energy debts each year



Progress to recover living standards is too slow

Compared to 2022/23, when the price cap rose to more than £4,000 forcing the government to intervene with £44 billion of support[13], it's tempting to think that the energy crisis is behind us. Yet prices remain 68% higher than historic norms, and will rise by £111 in April[14]. The past 3 years have seen an ongoing gulf between the expenditures and incomes for low-income households.

Energy price cap over time

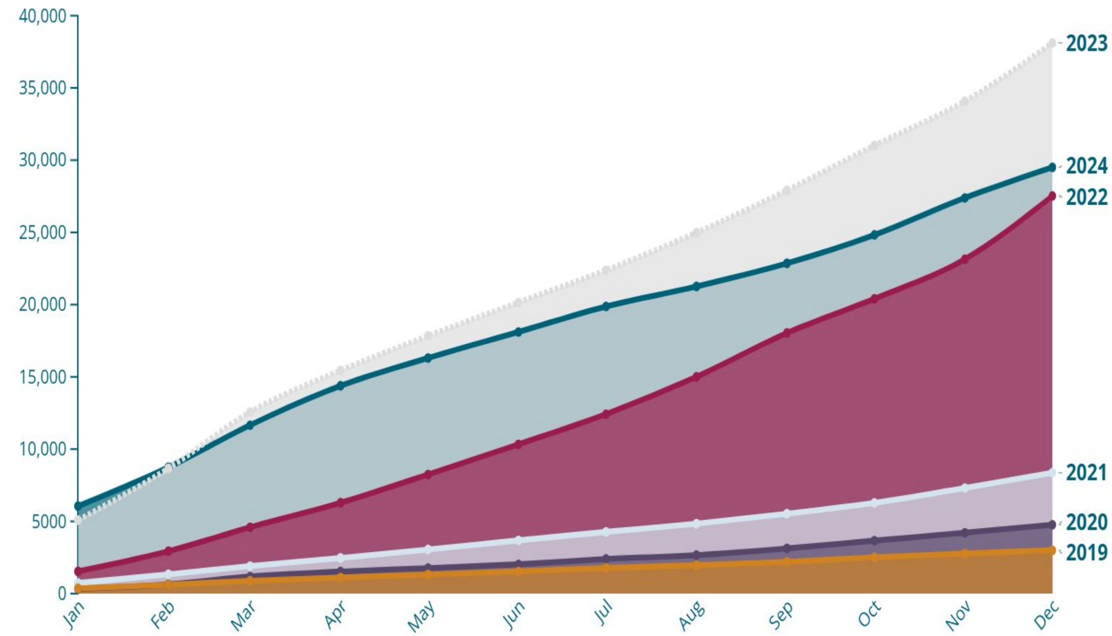


Peter's story

Peter is struggling with the cost of living crisis. The increase in essential bills as well as the inability of UC to reflect current inflation has caused hardship for his household. Peter has been struggling with his essential bills such as energy, water and food. The sustained rise in his bills leaves him with little to no money for food. This has forced his household into debt through emergency payments. He has had to make emergency payments which has increased his bills and put him into higher arrears.

While down from 2023, we are still helping significantly higher numbers of people than before the crisis who can't afford to top up their prepayment meter.

Cumulative number of people Citizens Advice have helped who can't afford to top up their prepayment meter each year



When we look at demand for overall energy advice to our services, it's a similar picture. In 2020, we helped just under 250,000 (247,000) people with energy advice. While slightly lower than the demand in 2023 (265,000), it's also higher than any other year on record.

Our polling has similarly concerning findings::

- In the year to December 2022, 1 in 3 (33%) people with a prepayment meter had disconnected at least once because they could not afford to top up, equal to more than 3 million people.
- Just over 2 years later and after essential reforms to prepay meters[15], the figure sits only slightly lower (29%), equal to more than 2.8 million people.

Consumers are facing an uncertain future

The energy price cap will rise by £111 in April[16]. Early projections are that prices could rise yet again in July[17], and will be pushed even further by the rising debt allowance in the price cap.

In the medium term, prices are not expected to fall back to pre-crisis levels, and there remains a huge amount of volatility in the market[18]. Price uncertainty is a key reason why many people are more concerned about their energy over other bills[18].

In our most recent polling we asked people whether, if energy bills stayed roughly the same over the next 5 years, this would impact their ability to afford other essentials (such as food, rent, other utilities):

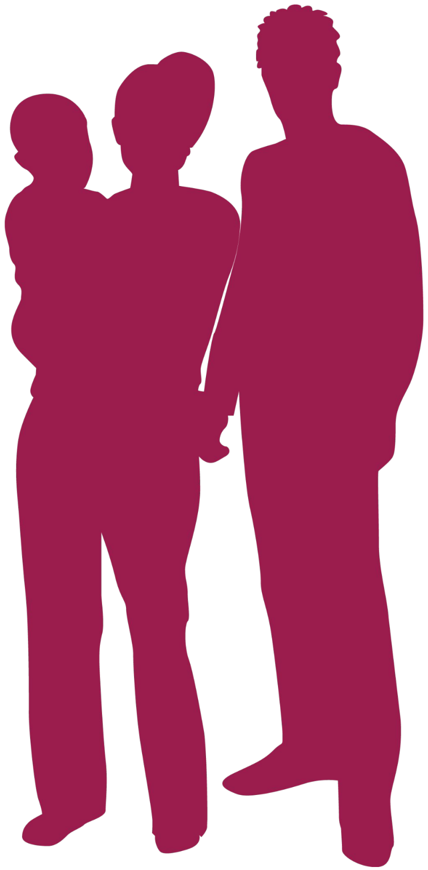
- Nearly 4 in 10 (39%) said that it would impact their ability to afford other essentials, with 11% saying it would be difficult to afford their rent/mortgage payments.
- Half of low-income households said that it would affect their ability to afford their essentials.

For millions of low-income households, in recent years spiralling essential costs and in particular energy bills have driven people into negative budgets - when their income is not enough to cover their essential costs, even after being helped by one of our advisers. The right type of targeted bill support is needed to support people on low-incomes who are facing higher energy costs, and to act as a buffer for unpredictable price rises in the future.

Some groups have fared much worse than others

While most people have been impacted by the energy crisis, its impact has been far worse for some than others. Some headlines from our recent nationally representative polling draw out how stark these differences are:

- 16% of households on means-tested benefits, including 22% on universal credit are in energy debt to their supplier. This is compared to 8% of households who aren't on means-tested benefits.
- 16% of households who have a mental health condition reported being in debt to their energy supplier, compared to 10% of all respondents.
- People on means-tested benefits who use prepayment meters are nearly twice as likely as people who aren't on any means-tested benefits to be disconnected from their energy supply once a week or more in the past year - 11% as opposed to 6%.
- People on means-tested benefits are more than twice as likely (39% vs 19%) to have fallen behind on other essential bills or expenditures as a result of their energy debt than people not in receipt of means-tested benefits.

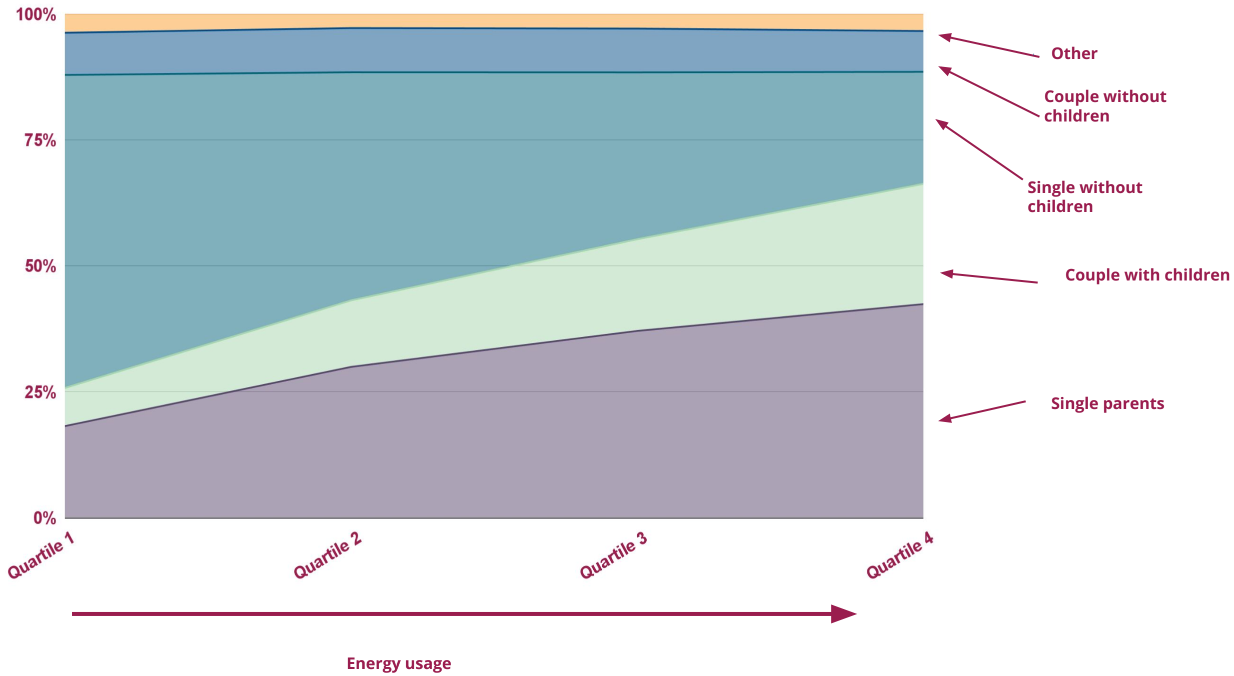


Energy affordability plays a key role in child poverty

For the people we help, it is the relationship between their income and their essential costs that makes the biggest difference to whether they face significant hardship.

Households with children frequently face higher essential costs[19]. Families with children and in particular single parent households, are also disproportionately represented in the upper quartiles of energy costs[20].

Two thirds (66%) of those we help who are in the highest quartile of energy use are households with children (Citizens Advice debt client data)



As prices rise, families with children are increasingly struggling to afford their energy bills, and more and more are falling into debt. Our polling found that:

- Families with children under 5 years old in the household are more than twice as likely to be in debt to their energy suppliers (22%) than those without any children (8%).
- For low-income families[21] with children, that figure rises to 1 in 3 (33%).

Energy affordability plays a key role in child poverty

Ofgem's new rules on prepayment meters prohibit forced prepay installations in households with children under 2 years old[22]. Yet we found continued evidence that households with young children continue to face hardship.

More than three quarters (76%) of households with children under 2 on prepayment meters reported having to ration their energy to save money in the past year, compared to 64% of households with no children. This is despite new rules which say that energy suppliers should review annually if prepayment remains a safe and reasonably practicable payment method for their customers.

Frida's story[23]

Frida is a single mother with 4 dependent children at home. She does not have enough left from her benefits or income to pay for her household's energy supply, despite it being a priority bill. Frida and her children have been disconnected from their energy supply, and she has already used all of her fuel vouchers for the year. Without additional support Frida will be unable to cover other essentials such as food and rent as she prioritises keeping her gas and electricity on.

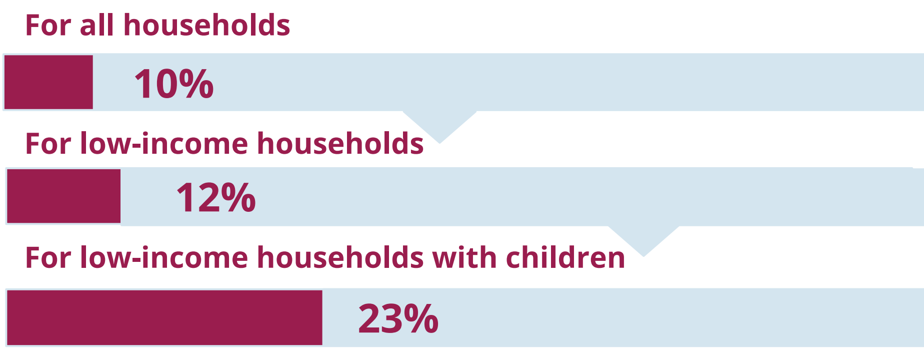
On the whole, households with children are also more likely to feel concerned about the future:

- 60% of bill payers in households with children - equating to 4.7 million households - are concerned about affording their energy over the coming year, compared to 45% of households with no children.
- 47% of bill payers in households with children are concerned that if energy bills remain roughly the same over the next 5 years, this would impact their ability to afford other essentials. For households without any children, the figure is 36%.

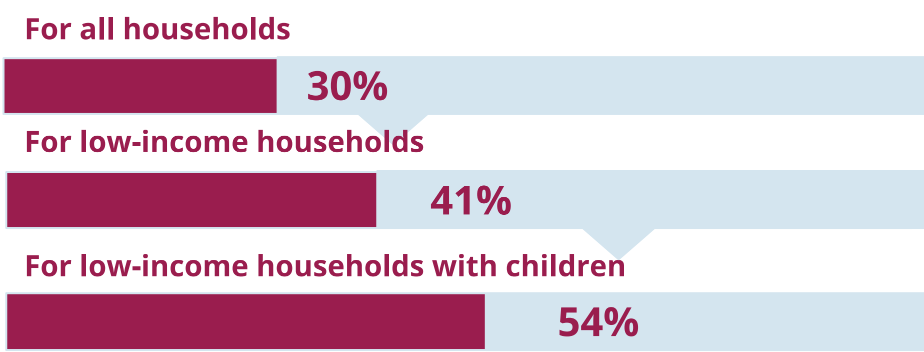
Energy affordability plays a key role in child poverty

Lower income households with children have fared even worse since the crisis began, as they face increasing inflexible costs and largely stagnant incomes.

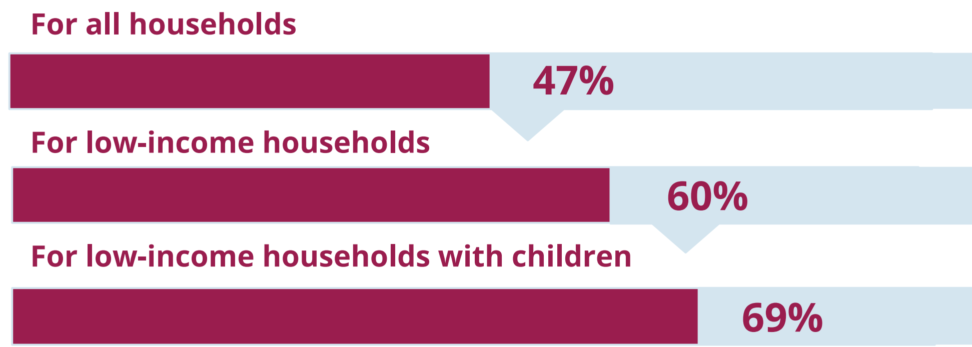
We asked respondents if they were in debt to their energy supplier:

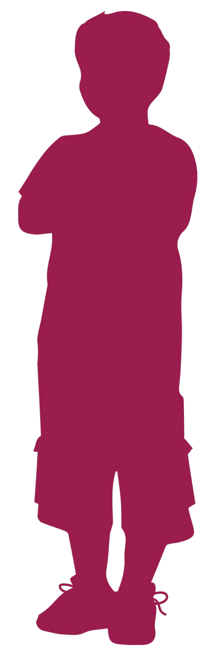


In our survey we asked how difficult people find it to afford their energy bills each month:



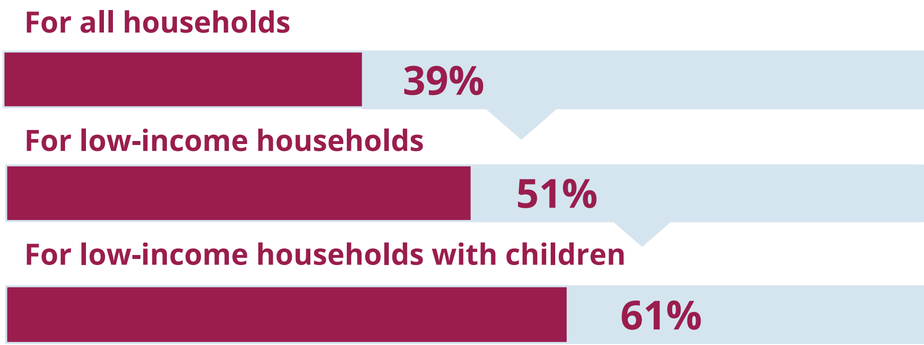
We asked if respondents were worried about affording energy over the coming winter:





Energy affordability plays a key role in child poverty

We also asked whether, if energy bills stayed roughly the same over the next 5 years, it would impact their ability to afford other essentials:



The evidence is clear that families with children, and in particular those on low incomes, are far more vulnerable to price shocks than the general population. Government statistics show that households with children have the highest likelihood of being in fuel poverty. Single parent households have the greatest risk, with more than 29% of these households in fuel poverty based on the most recent figures[24].

As a particularly volatile essential cost that makes up a large portion of family budgets, energy bills are uniquely difficult to budget for. Reforming the Warm Home Discount (WHD) could provide low-income households with children protection against volatile energy prices, through a tiered payment that gives more to those with the highest energy needs, or by providing a minimum safeguard payment for all low incomes families with children.

Edith's story[25]

Edith is a single mum of 5 who is unable to work due to her health. Rising costs have meant that she has fallen behind with payments for both energy and water. She lives very frugally and regularly has to choose between heating her home and feeding herself and her children. Edith is left with a negative budget each month and has been pushed to rely heavily on crisis support such as the Household Support Fund and fuel vouchers. The impact of her financial situation means basic essential needs such as a warm home, healthy food and secure housing are not being met for her young family.

The experience of pensioners after changes in support this winter

Up until the late 1990s pensioners faced some of the highest poverty rates in society. However, the impact of policy interventions to increase pensions and broader economic trends have successfully brought absolute poverty among pensioners down. Recent estimates put absolute poverty rates among pensioners at 12% - lower than any other key demographic group[26]. At the same time, wage growth among poorer pensioners has fallen since 2011 and relative poverty rates have increased.

In 2024 the government announced the decision to means-test the Winter Fuel Payment by limiting it to those pensioners who were claiming Pension Credit and other means tested benefits. While the Winter Fuel Payment was poorly targeted, there was always a risk that some low-income pensioners would fall through the cracks. Overall the Government estimated that this change would slow the pace of improvement in the number of pensioners in fuel poverty, but not reverse it[27].

A complete picture of the impact of this change over the winter will take some time - but looking at our polling provides an early indication. The overall picture indicates that, as a whole, pensioners are still faring better than most key demographics:

- They are less likely to be in debt - 4% of pensioners (people aged 65+)[28] are in debt to their energy supplier, compared to 10% of all respondents, and 14% of people aged 18-34.
- 2 in 10 (21%) pensioners said that they find it difficult to afford their energy bills - compared to nearly 3 in 10 (28%) overall - the lowest of any age group.

Low-income pensioners are finding it more difficult, but on the whole are struggling less than other low-income groups:

- Just over 1 in 3 (31%) low-income pensioners said that they find it difficult to afford their energy bills - compared to 4 in 10 (41%) of all low-income households, and more than half (54%) of low-income households with children.
- 27% of pensioners living in a low income household told us they felt unable to heat their home to a comfortable temperature. This compared to 36% of low-income households with children, or just under half (47%) of low-income households where somebody has a long-term health condition or a disability.

In the first winter since the WFP has been means-tested, we asked respondents to our survey about the impact on their ability to afford their energy bill:

- 2% of low-income pensioners who no longer receive the Winter Fuel Payment said that they would no longer be able to afford their energy bills.
- Nearly 1 in 3 (30%) of pensioners who no longer receive the WFP said that the changes mean that they will need to cut back on other essentials or fall behind on other bills in order to afford their energy, while 8% said they will need to go without heating or hot water to cover their bills.

We would expect pensioners who continue to receive the WFP (those in receipt of Pension Credit) to have lower incomes than the average, and to struggle more with energy affordability. Comparing this group to pensioners who have recently lost the WFP shows this to be the case.

- 17% of pensioners who have lost the WFP said that they found it difficult to afford their energy bills each month, compared to 35% of those who continue to receive it.
- 30% of pensioners who lost the WFP said that they were worried about affording their energy over the coming year, compared to 53% who continue to receive it.

This early snapshot suggests that some low-income pensioners have fallen through the cracks in support. Government should continue to promote the Pension Credit, to ensure that as many eligible pensioners access the full support they're entitled to and maintain their access to Winter Fuel Payment.

Energy suppliers should also ensure that people who just miss out on Pension Credit but find themselves struggling with their energy bills can access appropriate support. Energy efficiency schemes are another way that support should be provided to low-income households who miss out on means-tested support.

Jonathan's story

Jonathan is 80. He receives a state retirement pension and a small private pension. Jonathan's financial situation has worsened in recent years and he has been struggling to cover essential living costs that he could previously afford with ease. He lost his partner a few years ago and has lost the financial help that she used to provide. He has had help over the years from Winter Fuel Payments but following the rule changes is no longer eligible for this as he is over the threshold for Pension Credit. He no longer receives or is eligible for the Warm Homes Discount from his energy provider either. He has had to cut back on shopping and food in order to prioritise payments of rent and bills.

Providing better targeted support: a tiered Warm Home Discount

The simplest way to get support to people in the medium term is through reforms to the existing Warm Home Discount (WHD).

In England and Wales this provides an automatic £150 bill discount for 2.19 million people of working age in receipt of means-tested benefits with high energy costs as assessed based on the characteristics of the property they live in. It also provides just under 1 million pensioners who receive Pension Credit (Guarantee Credit)[29].

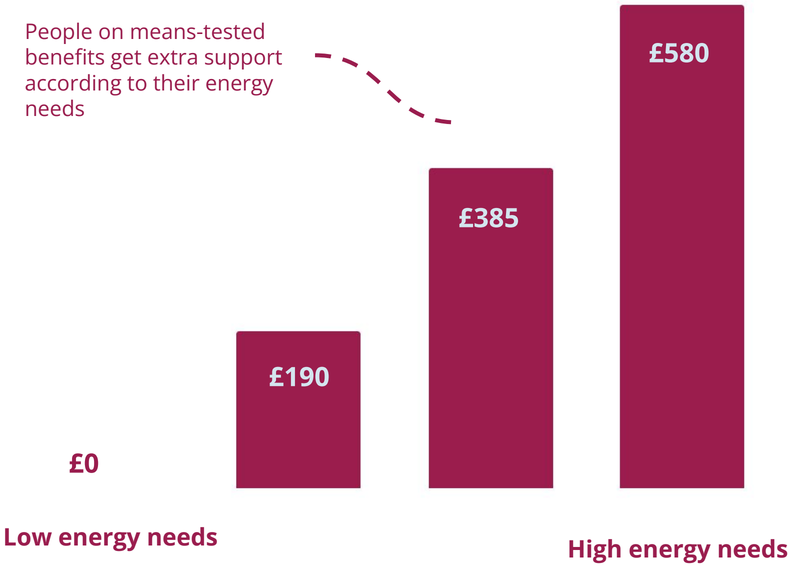
While the scheme design has many benefits, as energy costs have increased, the level of support it provides hasn't kept pace. In 2014 it was worth 12.5% of the average bill, but now only makes up just over 8%. It also doesn't reach enough people - around 4.5 million households on means-tested benefits don't receive WHD.

Our preferred bill support mechanism is an expanded version of the scheme that reaches more people and gives more support to those with higher costs[30]. This could provide support of up to a third of a typical bill (currently that would be around £570) to ~2 million households on means tested benefits with the highest energy needs, with lower amounts of support for a further ~4 million households.

Previously we have modelled the impact of a tiered WHD on our debt clients against a flat rate increase, and found that because it is targeted at both income and energy costs, it has a more significant impact on budgets[31].

This would be more tailored to people's needs and would address steep cliff edges which exist in the current scheme. At an estimated £1.7 billion a year[32] it would cost less than the Winter Fuel Payment did in previous years, but nonetheless represents a significant amount to be funded. We explore in later sections of this report how this could be paid for.

How a tiered WHD scheme could work



Providing better targeted support: a new safeguard payment for households with children

The 'tiered WHD' we have proposed previously is the best way to target support at lower income households with high energy costs, but there are other ways that the government could reform the scheme to provide targeted support for households with characteristics that mean they are more likely to be struggling with energy.

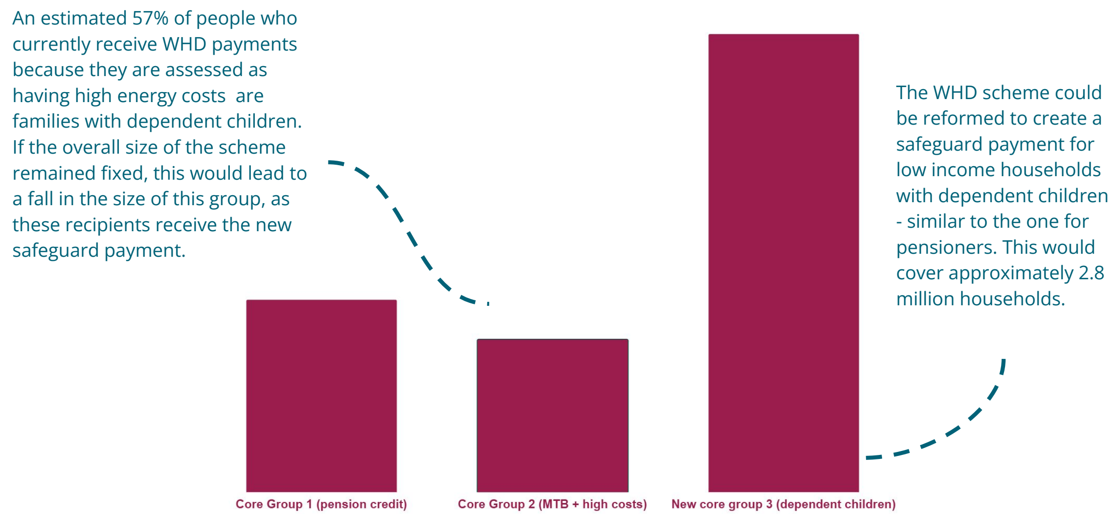
One option would be to provide a minimum 'safeguard' payment for households on means-tested benefits with children. This would be similar to the payment in the current scheme which provides all pensioners in receipt of Pension Credit with help, regardless of their potential energy costs.

We estimated it could lead to an increase in the number of households with children who receive support of around 1.7 million[33]. The additional payment can also be delivered in Scotland, which is not currently the case for the tiered WHD option due to the data required to estimate household energy usage.

Given that energy costs for households with dependent children are frequently higher and more inflexible[34], some households could be currently missing out if they have higher energy bills relative to their estimated needs based on property characteristics. The English Housing Survey shows that households with dependent children are at a greater risk of living in overcrowded housing than those without, a risk which increases significantly in the rental sector[35].

This approach could align with the Government's recent proposal to adopt a new Energy Affordability Indicator in its fuel poverty strategy. This would assess and monitor the proportion of household income spent on energy costs, and identify vulnerable groups that are disproportionately affected by high energy costs[36]. The scheme would be cheaper than the tiered WHD proposal, at around £0.9 million, but it would also reach fewer people and provide less support overall.

The size and structure of a reformed WHD scheme with safeguard payments to households with children on means-tested benefits



Providing better targeted support: a new safeguard payment for households with children

In order to understand the benefits of a new safeguard payment, we modelled the impact of a guaranteed payment for low-income households with children on the average monthly budget of our debt clients[37].

The value of payments under the WHD scheme hasn't kept pace with inflation. Households with children have faced particularly high inflation in recent years, so for the purposes of our modelling we have set the payment at £300. We have also increased the payment for pensioners from £150 to £300 to redress the real term fall in the value of WHD and to account for the higher risks associated with fuel poverty for this group.

The average monthly budget for our clients overall moves from a budget deficit of £9 to a budget surplus of £1. The impact on our debt clients with children who are eligible for means-tested benefits shows a significant impact on average budgets. For couples with dependent children, their average monthly budget surplus increases from £19 to £36. For low-income single parent households, the intervention moves the average budget for our debt clients from negative to positive - increasing the average monthly budget from -£16 to £6.

The impact of an additional child guaranteed payment on the monthly budget of our debt clients

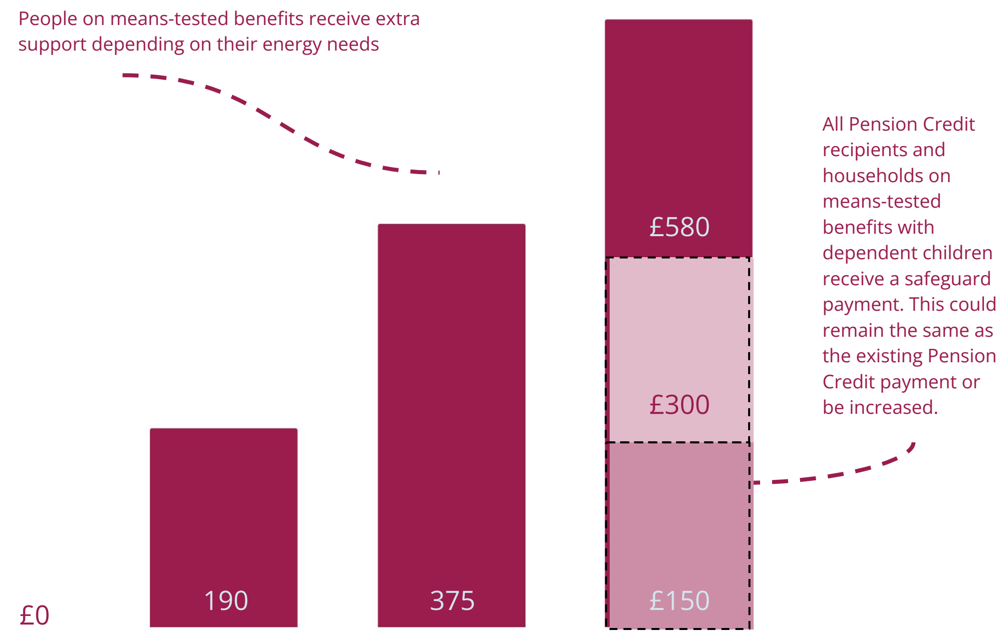
Providing better targeted support: a hybrid model

The infrastructure in place for the existing Warm Home Discount scheme makes it possible for the government to target support in a number of iterations, to provide the most cost-effective support.

For example, a hybrid approach could provide both differentiation based on assessed energy costs, alongside guaranteed minimum payments for low-income pensioners and households with dependent children who receive means-tested benefits.

Deciding on the correct level to set payments (for safeguarding payments and tiered payments) will depend on an assessment of the most cost-effective way to target support. However, this mechanism could help improve outcomes for all low-income households with children and pensioners, and those with higher energy needs.

Example of how a hybrid WHD scheme could work



What would our proposal cost and how could it be funded?

All of our proposals require additional funding, but there is no way for the government to meet its key priorities without targeted bill support.

In addition to the existing spending on WHD of approximately £450 million, we estimate that a new £300 safeguard for low income households with children payment would cost approximately £930 million pounds and add an estimated £33 to the average bill.

We estimate that a tiered WHD, which provides up to a third of an average bill, would cost around £1.7 billion in addition to existing WHD spending. If funded solely through bills, this would add an average £63 to the average bill.

The hybrid approach, including tiered payments based on an assessment of energy needs alongside a minimum guaranteed payment for households with children, while costing more, would provide support to most people.

Paying for new support is challenging. The fairest way to fund help is likely to be via taxation, but fiscal constraints mean this is unlikely to be able to fund the full cost of additional support. Some funding could come via energy bills, but this is regressive, and would create worse outcomes for people who miss out on the payment at a time when bills remain high.

An alternative approach could fund support from another part of the energy system. Recent Citizens Advice research identified nearly £4 billion in excess returns for energy network companies, because the price controls overestimated the impacts of inflation on their borrowing costs[38]. Network companies have benefited from this windfall at a time when energy consumers have been hit hard by price increases. We think the firms have an obligation to support those who have been struggling most.

This funding would be well-positioned to support the initial outlay for targeted bill support. It could also help fund the energy debt relief scheme proposed by Ofgem. This could reduce the additional cost of bad debt built up during the crisis (currently £28 per billpayer) creating savings that could be reallocated to fund targeted bill support.[39]

This support will unlock significant direct and indirect benefits for the Government. There is a body of research that attempts to quantify the exact cost to the NHS of illnesses related to people living in cold, damp homes - with estimates as high as £2.5 billion a year[40]. Fuel poverty also poses particular challenges for children. Alongside specific health risks, living in cold and dark homes can have a significant impact on children's cognitive and educational development[41].

Targeted support is essential for achieving clean power by 2030

The Government's 2030 clean power plan has committed to wide-ranging reforms and investment which should increase energy security and bring prices down for consumers over the longer term[42]. However, it will take some time for the benefits of this action to be realised, and the government risks jeopardising their plans if people aren't supported during the transition.

Targeted bill support can unlock some vital reforms to support the transition, as the mechanism can be adjusted to mitigate the risks for people who might lose out from certain changes. For example, it can work alongside reforms to policy levies that would make electricity cheaper, encouraging the decarbonisation of heat, by supporting those on low incomes who continue to rely on gas[43]. It could also tackle the distributional impacts that could arise from standing charge reform, which could push bills up for people with higher energy needs[44].

It can also support people while they wait for energy efficiency improvements to their home. A recent nationally representative survey from Citizens Advice found that nearly 7 in 10 people (69%) are interested in making at least one energy efficiency improvement in the next five years, equating to 19 million households[45]. Reducing energy bills was the most common motivator respondents listed, with more than 6 in 10 (62%) saying that this would be a key reason.

However, two thirds (66%) of households that were interested said that they were concerned about the cost of doing so. To overcome these concerns and make sure energy efficiency is affordable for everyone, the Government should consider a package of financial support as part of its forthcoming Warm Homes Plan. This should include fully funded upgrades for lower income households living in inefficient homes, grants tapered by household income, and Government-backed zero or low-interest loans to spread any remaining upfront costs[46].

The overall generosity of the targeted support scheme could be tapered down as the impact of the Warm Homes Plan and cheaper low carbon energy reduces the need for support.

What are the other options?

There is consensus among charities, industry and think tanks that long-term energy bill support should be an urgent priority. Providing that support through a reformed WHD is not the only option available to the government, and there are a number of other proposals that have been put forward. Below we talk through a number of options, which are either the government's existing approach, or are influential proposals:

- Rising block tariffs (RBTs) - an energy pricing structure that charges more for energy the higher the consumption.
- Standing charge reform - a proposal to introduce zero standing charge options for consumers .
- Energy efficiency measures to bring down bills in the longer term.
- Targeting support through the welfare system.

In our view, some of these interventions - such as RBTs and standing charge reform - are complicated and risk creating further unintended distributional effects. And while energy efficiency measures will bring bills down in the future, support is urgently needed in the meantime.

More sophisticated forms of targeted support should be explored in the future, and overcoming the legal and technical data sharing barriers to this should be a priority for the government. To provide the support urgently needed next winter, we think that a reformed WHD is the most technically feasible and best targeted option.

Rising block tariffs

Rather than providing targeted energy bill support, one idea that has been put forward is a form of rising block tariff (RBT)[47]. In its simplest form RBTs are a pricing structure where the cost of energy increases as consumption increases. The model put forward by one think tank, New Economics Foundation (NEF), is designed to provide a household's annual essential energy needs for free. Under this model energy would eventually be split into 3 pricing bands: a free band, a market-priced band and a premium band at 50% higher than the market price.

The potential benefits to RBTs are that a strong financial signal would be sent to those consumers whose energy usage exceeded the higher or highest thresholds, encouraging them to use less. This could lead to more efficient use of energy. Additionally, providing an essential level of energy to all households would avoid households in-need from falling through gaps in support that is an inherent risk with targeted approaches.

However, there are significant drawbacks to RBTs. Firstly, although there is a loose correlation between income and energy usage, there is a significant variation between income deciles. In many cases, factors such as household size could have a greater influence on energy usage than income. Analysis from Citizens Advice and the Social Market Foundation found that 26% of households in the poorest decile could lose out under an RBT[48].

NEF's model for the National Energy Guarantee aims to resolve this issue by introducing additional free or low-cost energy allowance for households with children and households with disabled people. This would improve targeting, but increases complexity while running into some of the same cliff-edges that RBTs aim to avoid.

While there might be merit in exploring some form of RBT in the future, there are several factors that mean that it's unlikely to be a feasible solution in the shorter or medium term. One major barrier is that RBTs are reliant on smart metering, which still only covers around 65% of households across the country[49]. Finally, the government's clean power 2030 action plan places consumer-led flexibility at the centre of the government's plans. It is extremely unclear how RBTs would support this. For example, consumers who could shift their energy use to off-peak hours could still face high marginal costs under an RBT, or disincentivised from participating if their energy costs are artificially low[50].

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Standing charge reform

One proposal that the Government and Ofgem are looking at is reform of standing charges, with a recent proposal to introduce zero standing charge tariffs as an option for consumers[51].

The argument for doing so is that standing charges are a fixed daily cost that households must pay regardless of how much energy they use, and they therefore disproportionately impact low-income and low-usage households. Theoretically, a tariff without a standing charge would also encourage energy efficiency, by allowing consumers to benefit more directly from cutting their energy consumption.

However, we've previously raised concerns that removing standing charges would mean that some vulnerable and low income consumers would face even higher costs than they do today[52]. This includes people who have higher energy usage because of medical equipment or a greater need to stay warm, and people with electricity storage heaters or heat pumps. At the same time, higher income households with equipment such as solar panels and batteries could benefit, as they have the option to reduce their energy usage significantly.

Ofgem's recent proposal to apply a smaller reduction in standing charges may help to avoid raising costs for people with high energy needs and older electric heating. However, costs could still rise for some customers if significant numbers of people move onto capped tariffs that don't recover the full costs as laid out in latest proposals by the regulator.

Overall, there remains a risk that most short term options for standing charge reform risk making electrification more expensive, and driving up costs for some low-income households. Under these reforms targeted bill support will be essential to mitigate the risks for those people who are affected.

Other options

In our view the best way to provide targeted cost-effective targeted support to households most in-need by this winter is through reforms to the existing WHD scheme. Elsewhere it has been argued that the most sustainable way to provide energy-specific support is through energy efficiency measures, while the best way to support low-income households is through the welfare system[53].

In the long run, energy efficiency and renewable technology will be the most sustainable way to reduce bills, but it will take time to realise these benefits. The volatility of energy as an essential service alongside the unequal costs (independent of wealth) facing certain groups, means that the right kind of targeted support needs to be delivered through the energy system.

Conclusion

The situation the government inherited has been hugely challenging: energy prices remain high and volatile, while years of high inflation have caused immense damage to household finances. Over time these pressures have driven us into the middle of an unprecedented energy debt crisis. At the same time, 3 in 10 children in the UK live in poverty[54].

Not only must the government tackle the enduring crisis in living standards, but we are in a process of rapid transition as we move towards a cleaner and more secure energy system[55]. In time, these reforms should bring down bills and protect people from external price shocks. But without accompanying targeted support, they risk doing so at the expense of some low-income households.

There are various options to tackle energy affordability on the table, but most of these are not without significant drawbacks. Improving support using the existing WHD system is the most technically feasible and best targeted option available. We have outlined a number of approaches in this report that can help achieve its various goals.

The key barriers to introducing a reformed WHD is the data sharing required for the scheme, and changes to the regulations that underpin it.

Some work is already underway from the government to solve these problems, but this needs to remain a priority. Not only will improved data sharing unlock targeted support, it will also be crucial for Ofgem's debt relief scheme, net zero support, and support in other essential markets.

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Contributors: Sam Andre-Paul, Alex Belsham-Harris, Tom Brooke Bullard, Olu Emmanuel, Chloe Huttner, Lauren Howarth, Will Johnstone, Lutfor Rahman, Jess Roper, Lauren Shaw