

Winter is Coming:

How the UK Should Respond to Russia's Weaponisation of Energy Sources This Winter

By Dr Helena Ivanov



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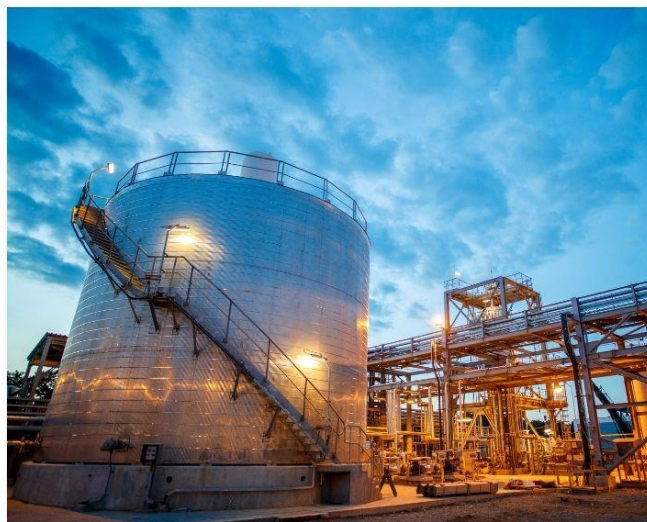


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utive summary

When Vladimir Putin invaded Ukraine, he hoped to weaken the Western response by holding over Europe its dependence on Russian energy imports. In September 2022, he warned that price caps on Russian gas would leave Europe to “freeze, freeze.” Yet Europe imposed unprecedented sanctions on Russian energy and survived the winter of 2022 with its resolve intact.

However, while Russia’s attempt to weaponise energy sources has not gone as planned, the spike in energy prices continues to cause huge economic and social challenges for many. This proved a particular challenge in the UK. Despite its relative lack of reliance on Russian gas, the UK has been among the most severely impacted European countries when it comes to soaring energy bills and gas prices. With no end to the war in Ukraine in sight, experts warn that the upcoming winter of 2023/24 is unlikely to be much different, with households and businesses continuing to struggle over the coming months. It is vital that we prepare now for the challenging months ahead.

This report finds that Russia’s invasion of Ukraine and the country’s attempt to weaponise energy sources exposed long-term vulnerabilities in the UK’s energy supply. Some structural reasons made the UK particularly exposed to price volatility. In addition, we found that the UK’s energy system more generally suffers from serious flaws, such as a shortage of storage facilities and generally low levels of energy-efficiency among British households.

While there are many things the UK Government could and should do in the long run to improve the situation, the timeframe in which to implement changes is rather limited for the upcoming winter of 2023/24. Thus, we propose a set of realistic policies that, if adopted by the Government with relatively immediate effect, could make the change for the better and help British businesses and households weather the storm during this upcoming winter. Namely, we suggest the following:

- Reward those who spend less (businesses and institutions only)
- Subsidise energy efficiency projects for households and businesses
- Continue with price caps
- Commence information campaigns
- Consistent implementation of all policies

About the author

Dr Helena Ivanov is an associate research fellow at the Henry Jackson Society. She completed a PhD in International Relations at the London School of Economics and Political Science. Her research focuses on the relationship between propaganda and violence against civilians. In her thesis, Helena examined the role propaganda played during the Yugoslav Wars and produced a model for studying propaganda which details the key phases, functions, discourses and techniques of propaganda (the model itself is applicable to other contexts). Additionally, Helena also served as a Manager at the Centre for International Studies at the LSE.

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Introduction

Russia's invasion of Ukraine has led to an unprecedented crisis, both in Ukraine and across the globe. Thousands of people have died to date and over eight million Ukrainians have fled their war-torn country, leading to the worst refugee crisis in Europe since World War II. The current cost of Ukraine's post-war reconstruction stands at US\$411 billion according to the latest report published by the World Bank.¹

When Vladimir Putin invaded Ukraine, he hoped to weaken the Western response by holding over Europe its dependence on Russian energy imports. Instead, in an attempt to stop Russia's aggression against Ukraine, the Western allies and many other countries across the world have adopted never-before-seen sanctions against Russia, hoping that such sanctions would cripple Russia's ability to continue waging this devastating war. Among other things, and at their own cost, Western countries have restricted the importing of Russian oil and gas. Concretely, the EU has "stopped importing Russian coal and banned refined oil imports, the US and UK banned all Russian oil and gas imports, and Germany stopped the opening of the Nord Stream 2 gas pipeline from Russia."² Despite its desire to do so, the EU has been unable to completely halt Russian gas imports "because it relies on it for about 40% of its gas needs."³ Nevertheless, in March 2023 the EU committed to cutting "gas imports from Russia by two-thirds within a year."⁴ The UK, which only imported small quantities of Russian gas to begin with, has now ended Russian imports altogether.⁵

Russia's weaponisation of energy sources led to a substantial problem with energy supply and the subsequent energy crisis across Europe and the rest of the world. Despite not being as reliant on Russian oil and gas as some of its European counterparts, the UK has been hit particularly hard by the conflict in Ukraine and the subsequent energy crisis. According to data published by the UK's Office for National Statistics (ONS), gas prices were up by a shocking 129.4% in the year to March 2023, with electricity prices rising by 66.7%.⁶

As the year progresses, there are signs for optimism as "inflation for gas and electricity remained stable between April and May, with prices rising 36.2% and 17.3% respectively, in

¹ "Updated Ukraine Recovery and Reconstruction Needs Assessment", The World Bank, 23 March 2023, <https://www.worldbank.org/en/news/press-release/2023/03/23/updated-ukraine-recovery-and-reconstruction-needs-assessment>

² "What are the sanctions on Russia and are they hurting its economy?", BBC News, 25 May 2023, <https://www.bbc.com/news/world-europe-60125659>

³ Ibid.

⁴ Jake Horton and Daniele Palumbo, "Russia sanctions: What impact have they had on its oil and gas exports?", BBC News, 26 January 2023, <https://www.bbc.com/news/58888451>

⁵ Ibid.

⁶ "Cost of living insights: Energy", ONS, 14 July 2023, <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/costoflivinginsights/energy>

the 12 months to May 2023.”⁷ This represents a comparative decline from the data reported above in the year ending in March 2023.

This increase in gas prices has been felt strongly by consumers. For example, according to public opinions polls carried out by the ONS: “nearly half (47%) of adults are using less fuel in their homes because of increases in the cost of living.”⁸

Of course, the increase in gas and electricity prices has led to an increase in the price of goods and services and is considered a major driver of inflation and the cost-of-living crisis. Attempts to address the cost-of-living crisis also created a turbulent political atmosphere which, among other things, saw Liz Truss ousted just 49 days into her premiership, earning her the title of the shortest-serving prime minister in the UK’s history.⁹

While the warmth of summer brings hope, the upcoming winter is likely to bring new worries for the citizens of the UK and its Government. It does not seem that Russia’s invasion of Ukraine is coming to an end, and there are serious questions about Europe’s ability to manage its energy supply and costs as the fallout from Russia’s weaponisation of energy sources continues. But clear policymaking, anticipation and preventive measures can potentially avert another difficult winter, or, at the very least, mitigate some of its more negative aspects. This is vital both to protect the public in these challenging times and to prevent the Russian regime from succeeding in its effort to weaken Western morale by wielding energy prices as a weapon. Thus, in this report, we offer a set of clear policy recommendations that could help the UK Government combat the cost-of-living crisis during the winter of 2023/24, with a specific focus on energy. To do so, we examine the following: the underlying causes of the current energy cost crisis; policies adopted to try and mitigate some of its impact as well as their effectiveness; and the likely course this crisis will take during the winter of 2023/24. It is our hope that such analysis will help us gain a better understanding of how and why the UK was so badly hit last year, given the country’s low reliance on Russia for energy resources. More importantly, we argue that such analysis is conducive to adequate policymaking and can help the UK Government prevent another difficult winter.

⁷ Ibid.

⁸ Ibid.

⁹ “Liz Truss: A quick guide to the UK’s shortest-serving PM”, BBC News, 20 October 2022, <https://www.bbc.com/news/uk-62750866>

The Long Night – A Very Difficult Winter 2022/23

The previous winter was one of the most difficult in contemporary British politics. The aforementioned spike in gas and electricity prices sent shockwaves across the country, leaving many Britons struggling to afford their bills. To illustrate, according to ONS data from December 2022:

- “Around a quarter of adults (23%) were occasionally, hardly ever, or never able to keep comfortably warm in their living room in the past two weeks.”¹⁰
- “Over 6 in 10 (63%) adults reported using less gas and electricity because of increases in the cost of living, with more than 9 in 10 (96%) of these adults using the heating less.”¹¹

However, the challenges did not end there. The spike in gas and electricity prices also led to a substantial increase in the price of most goods and services, thereby straining finances for a substantial number of Britons.

According to the December 2022 ONS data:

- “Around 1 in 6 (16%) adults were somewhat, or very, worried their food would run out before they had money to buy more, and 6% said their household had run out of food and could not afford to buy more.”¹²
- “Around 1 in 5 (19%) adults reported eating smaller portions because of the rising cost of living, while 17% said they were eating food past its use by date.”¹³

In fact, many had made daily lifestyle and purchasing changes, with 38% using the bath or shower less; 43% using the washing machine less; 48% suggesting they found it very or somewhat difficult to afford energy bills; 96% using the heating less; 53% buying cheaper food; and 59% reporting that they were eating out less, among other things.¹⁴

Given that there is no indication that Russia’s war in Ukraine will cease in the near future, it is crucial that we develop anticipatory measures to address energy instability and price fluctuations during the winter of 2023/24. To do so, we need to understand what brought about such a devastating energy cost crisis in the UK.

¹⁰ “The impact of winter pressures on adults in Great Britain: December 2022”, ONS, 15 December 2022, <https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/theimpactofwinterpressuresonaadultsingreatbritain/december2022>

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

The Origins of the Crisis

Many factors contributed to the energy and living cost crisis in 2022/23, some of which pre-date and are unrelated to Russia's invasion of Ukraine. For example:

- Brexit and the UK Emissions Trading Scheme (UK ETS), which replaced the UK's participation in the EU ETS, resulted in the UK being more exposed to price volatility.
- Weather conditions: for instance, a colder than average winter in 2021 and low wind speeds across Europe during the spring of 2021.
- The rapid economic rebound after the Covid-19 pandemic led to higher demands for energy in the travel and hospitality sectors.
- Outages of key infrastructure: for instance, "a fire at the IFA 1 interconnector – a high-voltage cable used to import electricity from France – caused a full outage."¹⁵

In February 2022, the UK's energy situation was already strained, and once Russia invaded Ukraine, things took a substantial turn for the worse. In response to the invasion, Western countries adopted unprecedented sanctions against Russia, including sanctions on Russia's oil and gas imports. As Dr Anna Valero, a Senior Policy Fellow at the London School of Economics (LSE), explains: "Consequently, a steep rise in the wholesale price of gas has driven up the amount that energy providers pay for gas and electricity – and that cost is now being passed on to the consumer – though recent policy interventions have somewhat helped cushion the extent of this impact."¹⁶ To illustrate, the EU's largest oil supplier was Russia, and Russian imports accounted for 40% of the EU's gas demand.¹⁷ Within the EU, some countries found themselves in a particularly difficult situation due to their reliance on Russia for their energy supply – like Germany, which "imported 55% of its gas from Russia prior to the invasion of Ukraine."¹⁸

¹⁵ "A brief history of the UK energy crisis – and what to expect next", SEFE Energy, 16 February 2023, <https://www.sefe-energy.co.uk/blog/a-brief-history-of-the-uk-energy-crisis-and-what-to-expect-next/>

¹⁶ Anna Valero, "Why have energy bills in the UK been rising?", LSE, 20 October 2022, <https://blogs.lse.ac.uk/politicsandpolicy/why-have-energy-bills-in-the-uk-been-rising-net-zero/>

¹⁷ "The Russia-Ukraine crisis: Implications for energy markets", Slaughter and May, 14 March 2022, <https://my.slaughterandmay.com/insights/briefings/the-russia-ukraine-crisis-implications-for-energy-markets>

¹⁸ Nicholas Barrett, "Why are global gas prices so high?" BBC News, 26 August 2022, <https://www.bbc.com/news/explainers-62644537>

By contrast, the UK was less reliant on Russia’s energy imports. As Chatham House reports, the UK’s reliance on Russia’s gas was comparatively negligible between 2016 and 2020:

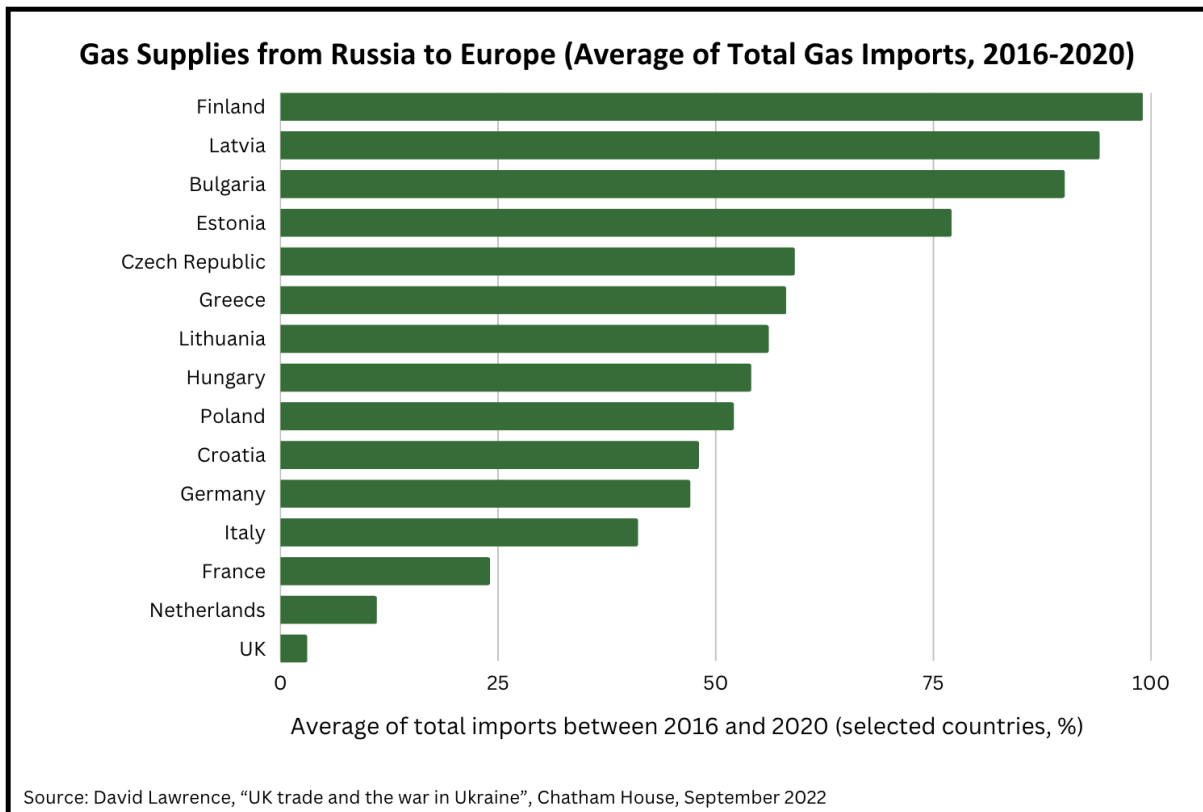


Figure 1¹⁹

Things were not much different in March 2022 when the UK relied on Russian imports to meet “c. 8% of domestic oil demand, and c. 18% of the country’s diesel. Russian gas presently accounts for c. 4% of the UK’s supply.”²⁰ Given these figures, one could have assumed that the UK would not be so badly hit by the sanctions against Russia and the rising gas prices. However, this comparative lack of exposure did not save the UK from a difficult winter. In fact, according to analysis by the International Monetary Fund (IMF) published in 2022, “UK household budgets [were hit] harder than any country in western Europe.”²¹ On top of the reasons discussed above, Russia’s invasion of Ukraine and the subsequent energy crisis also revealed further structural issues/problems that made the UK more exposed to the energy cost crisis than some other European countries.

¹⁹ David Lawrence, “UK trade and the war in Ukraine”, Chatham House, September 2022, https://www.chathamhouse.org/sites/default/files/2022-09/2022-09-01-uk-trade-war-in-ukraine-lawrence_0.pdf

²⁰ “The Russia-Ukraine crisis: Implications for energy markets”, Slaughter and May.

²¹ Damian Carrington, “Energy crisis: UK households worst hit in western Europe, finds IMF”, The Guardian, 1 September 2022, <https://www.theguardian.com/money/2022/sep/01/energy-crisis-uk-households-worst-hit-in-western-europe-finds-imf>

Furthermore, according to a Carbon Brief report, “sky-high gas prices are behind 96% of the increase in household energy bills... Another 3% is due to the collapse of multiple energy suppliers last winter.”²² Nevertheless, to better understand the previous crisis and prepare for the (potentially) upcoming one, it is important to break down some of the key factors that led to the unprecedented energy crisis in the UK.

First, as discussed, “UK and EU gas prices are closely correlated”²³ meaning that changes in European gas prices were likely to impact the UK market as well. As the UK Energy Research Centre (UKERC) reported in its *Review of Energy Policy 2022*: “[UK gas] prices are determined by the European gas market and the price of Liquefied Natural Gas (LNG) on global markets.”²⁴

More generally, the UK supply system is such that it leaves the country very exposed to price volatility. To illustrate, the UK primarily relies on “a mix of domestic gas sourced from the North Sea, pipeline imports from Europe, and liquified natural gas (LNG) shipments from the likes of Qatar. It is a diverse set-up that means the country will almost always be able to source enough gas for its needs – but during uncertain times it will have to pay a high price.”²⁵

Furthermore, “the electricity market operates in a way that means the price of power is almost always set by the price of gas... This means UK wholesale electricity prices are largely driven by wholesale gas prices: There is a 98% correlation between the two.”²⁶

Second, “around 85% of households use gas boilers to heat their homes, and around 40% of electricity is generated in gas fired power stations.”²⁷ Furthermore, “these are higher proportions than other European countries.”²⁸

Third, the UK has rather limited storage capabilities. To illustrate, “Germany and the Netherlands are among the EU countries to store enough gas to help them meet months of winter demand. By comparison, the UK can only hold enough gas to meet a few days of demand.”²⁹ The decision to close Rough storage facility back in 2017 most certainly did not help, as Rough “provided 70 per cent of the UK’s gas storage capacity for more than 30

²² Simon Evans, “Analysis: Why UK energy bills are soaring to record highs – and how to cut them”, Carbon Brief, 12 August 2022, <https://www.carbonbrief.org/analysis-why-uk-energy-bills-are-soaring-to-record-highs-and-how-to-cut-them/>

²³ “The Russia-Ukraine crisis: Implications for energy markets”, Slaughter and May.

²⁴ Rob Gross et al., “Review of Energy Policy 2022”, UKERC, December 2022, https://d2e1qxpsswcpgz.cloudfront.net/uploads/2017/12/UKERC_Review-of-Energy-Policy-2022.pdf

²⁵ Madeleine Cuff, “Energy bills rise: Getting rid of gas storage facilities has left the UK exposed to shortages and price hikes”, iNews, 3 February 2022, <https://inews.co.uk/news/uk-gas-storage-facilities-shortages-energy-price-rises-rough-1441830>

²⁶ Evans, “Analysis: Why UK energy bills are soaring to record highs”.

²⁷ Valero, “Why have energy bills in the UK been rising?”.

²⁸ Ibid.

²⁹ Cuff, “Energy bills rise”.

years.”³⁰ Thus, as Europe entered ‘saving mode’ and started filling its storage facilities, the UK had limited ability to do so. Following Russia’s invasion of Ukraine and the subsequent crisis, however, the Government has decided to recommission Rough, and its opening is expected for the upcoming winter.³¹ In conclusion, this “overreliance on gas for heating and cooking”³² in combination with “having some of the lowest amounts of gas storage capabilities in Europe”³³ has left the UK “particularly exposed during these challenging times.”³⁴

Finally, the UK also “has the least energy efficient homes in western Europe”³⁵ with “houses in the UK [being] poorly insulated compared to elsewhere in the continent.”³⁶ More specifically, “data from the latest English Housing Survey shows a very small percentage of homes with the highest A or B ratings, and over 50% rated D or lower (properties vary but a D rating typically equates to a house that is not well insulated, has a dated boiler and poor double glazing).”³⁷ Such a low level of energy efficiency also impacts the energy costs for British households. Further complicating the picture is the fact that people on lower incomes also tend to live in energy-inefficient houses with “the latest UK Housing Review [finding] there were nine million poorer people living in energy-inefficient homes in England.”³⁸

Thus, as illustrated by the evidence above, many different factors have contributed to the spiralling energy crisis in the UK. Although many of these factors cannot be addressed in the short term, and as such are likely to contribute to the energy crisis during the 2023/24 winter, some of them can potentially be immediately addressed in a way that could make the upcoming winter more manageable for British households. For example:

Energy efficiency measures can make a major difference to people’s bills. Homes with an EPC rating of F are likely to have a gas bill almost £1,000 higher than a home rated C this winter, according to the Energy and Climate Intelligence Unit. [Moreover] the Department for Business, Energy and Industrial Strategy (BEIS) estimated in 2021 that the reduction in gas consumption from energy efficiency measures ranged from 4% from loft insulation to 18% from solid wall insulation.³⁹

³⁰ Ibid.

³¹ “A brief history of the UK energy crisis”, SEFE Energy.

³² Ibid.

³³ Ibid.

³⁴ Ibid.

³⁵ Carrington, “Energy crisis: UK households worst hit in western Europe, finds IMF”.

³⁶ Valero, “Why have energy bills in the UK been rising?”.

³⁷ Rosa Hodgkin and Tom Sasse, “Tackling the UK’s energy efficiency problem: What the Truss government should learn from other countries”, Institute for Government, September 2022, <https://www.instituteforgovernment.org.uk/sites/default/files/publications/tackling-energy-efficiency-problem.pdf>

³⁸ Ibid.

³⁹ Ibid.

Before we dive deeper into the policy recommendations, we will examine the policies adopted last year and see whether and to what extent they have been efficient. In addition, we will examine the likely course this upcoming winter will take. Only by understanding what we can expect and what has been done so far can we provide a set of policy recommendations that are likely to be (more) effective in addressing the energy crisis and high energy bills for Britons.

Previous Policies and the Upcoming Winter

In an attempt to prevent and/or mitigate the negative impact the energy crisis was bound to have on UK households, the British Government adopted a series of schemes and policies throughout the last year and a half. Thus far, the following support schemes have been pledged/implemented:

Energy Price Guarantee (EPG): a discount on domestic electricity and gas prices over the period 1 October 2022 to 31 March 2024 [Between October 2022 and June 2023 the EPG was set at a level equivalent to an annual bill of £2500 in Great Britain, and from July 2023 to March 2024 it will be increased to £3000 a year.]

Energy Bills Support Scheme (EBSS) including the **EBSS Alternative Fund:** a one-off £400 payment to households to help with bills over winter 2022-23 [Announced April 2022; distributed over the course of a few months.]

Energy Bills Discount Scheme (EBDS): a discount on non-domestic electricity and gas prices over the period 1 April 2023 to 31 March 2024 [In effect replacing the scheme discussed below; very similar to it, but offering lower support.]

Energy Bill Relief Scheme (EBRS), including the **EBRS for non-standard customers:** a discount on non-domestic electricity and gas prices over the period 1 October 2022 to 31 March 2023 [Announced October 2022]

Alternative Fuel Payments (AFP), including the **AFP Alternative Fund** and the **Non-Domestic AFP:** a one-off payment for households (£200) and non-domestic customers (at least £150) who are not on the mains gas grid and use an alternative fuel (such as heating oil) for heating.

Pass-through requirements for the EBSS, EPG, EBRs and AFP, including specific pass-through requirements for **heat networks**: these require third party intermediaries to pass on benefits to end users.

[Finally], the Energy Prices Act 2022 created powers to set up, or deliver aspects of, each of these schemes.⁴⁰

On top of this, the UK Government also adopted a series of other policies. Analysing all of them exceeds the scope of this report, but some are worth mentioning so that the reader can get a better appreciation of the holistic approach the Government took towards this crisis. For instance, to *discount energy bills*, the Government announced the **Energy Bills Rebate** in February 2022 which included measures to support domestic gas and electricity customers in England, Wales and Scotland.⁴¹ Moreover, the Government also introduced **Energy Bills Discounts** which stipulated upfront discounts on bills of £200 for all domestic electricity customers.⁴² Additionally, as the rise in energy prices had an impact on the prices of various goods and services, the Government announced the new **Cost of Living Support package** in May 2022, which provided £1200 to millions of the most vulnerable households.⁴³

In addition, to tackle the systemic reasons responsible for last winter's severe energy crisis, such as *infrastructural problems*, *high demand levels* and *household energy inefficiency*, the Government also adopted new policies to mitigate their impact this coming winter.⁴⁴ For example, as mentioned, the UK Government is set to recommission the storage facility in Rough so as to urgently increase UK storage capabilities which were significantly lower compared to most of Europe. Finally, the UK Government recently rebranded its former ECO+ scheme (designed to provide up to £15,000 to middle-income households to make their homes more energy efficient)⁴⁵ as the Great British Insulation (GBI) Scheme, which will focus

⁴⁰ Becky Mawhood, Hazel Armstrong and Jennifer Brown, "Constituency casework: Government support for energy bills", House of Commons Library, 20 March 2023, <https://researchbriefings.files.parliament.uk/documents/CBP-9685/CBP-9685.pdf>

⁴¹ Rishi Sunak, "Chancellor's statement to the House – Energy Price Cap", HM Treasury, 3 February 2022, <https://www.gov.uk/government/speeches/chancellors-statement-to-the-house-energy-price-cap>

⁴² Becky Mawhood, Paul Bolton and Iona Stewart, "Energy Bills Support Scheme: Government policy and FAQs", House of Commons Library, 9 August 2022, <https://commonslibrary.parliament.uk/research-briefings/cbp-9461/>

⁴³ "Millions of most vulnerable households will receive £1,200 of help with cost of living", HM Treasury, 26 May 2022, <https://www.gov.uk/government/news/millions-of-most-vulnerable-households-will-receive-1200-of-help-with-cost-of-living>

⁴⁴ "A brief history of the UK energy crisis", SEFE Energy.

⁴⁵ Joe Middleton, "UK government to introduce grants to make homes more energy efficient", The Guardian, 25 November 2022, <https://www.theguardian.com/business/2022/nov/25/uk-government-to-introduce-grants-to-make-homes-more-energy-efficient>

on “helping households with funding for new insulation, which could lower energy bills by £300-400 a year.”⁴⁶

Many achievements ought to be applauded when it comes to the Government’s response. For one, introducing the price cap has greatly helped British households, with some estimates suggesting that without the price cap, annual bills could have reached over £4000.⁴⁷

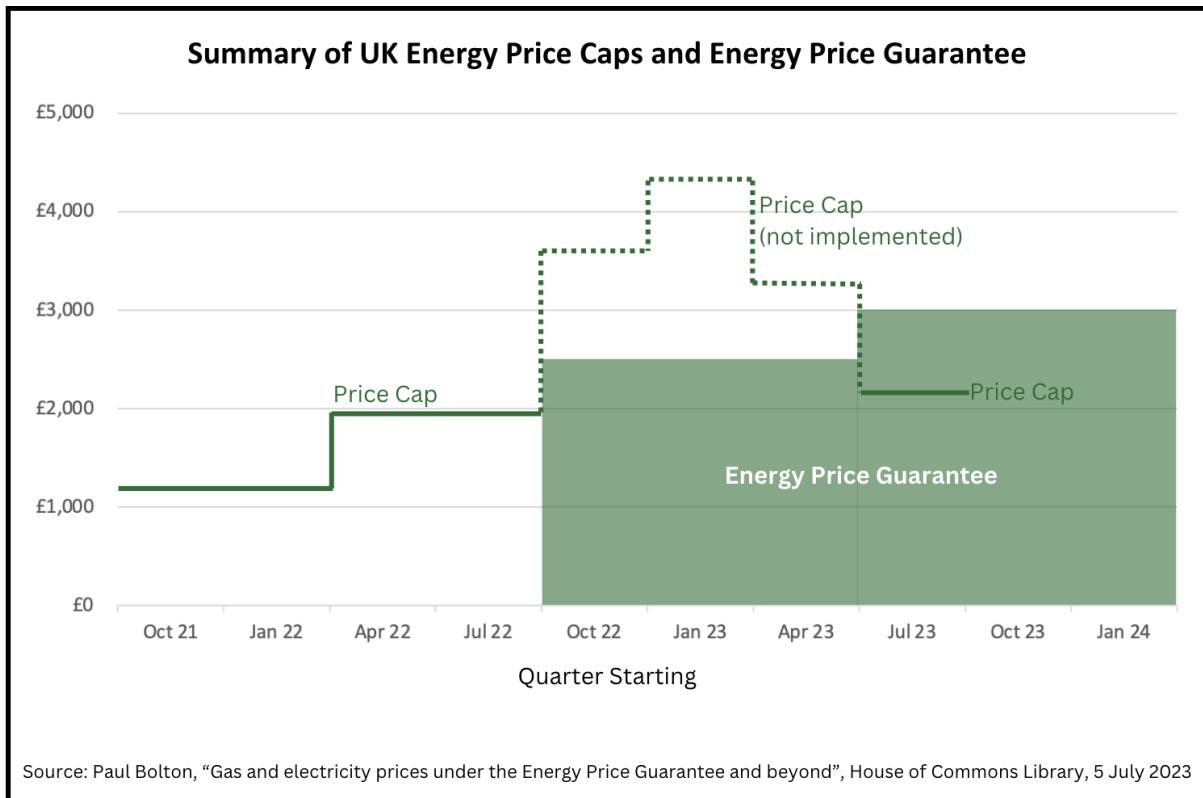


Figure 2⁴⁸

Furthermore, the decision to recommission Rough should also be applauded, as it will most certainly increase the UK’s storage capacity and allow the country to also enter the ‘saving mode’ going forward. Finally, providing financial assistance to households almost certainly helped many British families survive what has been one of the most difficult winters in the UK’s recent history.

However, experts have also been very critical of certain aspects of the UK Government’s approach to this energy crisis (with some arguing that the current crisis is a consequence of a

⁴⁶ Jack Woodfield, “Government delays ECO Plus launch and rebrands it as the Great British Insulation Scheme”, Homebuilding & Renovating, 3 April 2023, <https://www.homebuilding.co.uk/advice/eco-plus-scheme>

⁴⁷ Paul Bolton, “Gas and electricity prices under the Energy Price Guarantee and beyond”, House of Commons Library, 5 July 2023, <https://commonslibrary.parliament.uk/research-briefings/cbp-9714/>

⁴⁸ Ibid.

decades-long failure to properly address the UK's energy system). For example, the UKERC reports that it has "repeatedly called for greater attention to energy efficiency and demand reduction."⁴⁹ According to UKERC, the UK Government has done very little to impact the demand for gas, with its information campaign last year being too-little-too-late. In its own words: "the opportunity to use the summer months to help households adopt the most straightforward home energy improvements has been largely wasted."⁵⁰

UKERC (among others) also argues that "the UK Government focus has been on subsidising consumer prices, with little attention to policies for reducing energy use. The current approach is not targeted to the most vulnerable, creates a large fiscal burden and does nothing to reduce demand."⁵¹

In addition, UKERC also argues that "unlike comparable European governments, UK government resisted any systematic public campaign to inform households about saving energy this winter. This is surprising as there is strong international evidence that information campaigns are highly effective as part of a portfolio of policies."⁵²

Finally, the Institute for Government (IfG) is also very critical of how the Government manages its policies. What is more, the Institute is saying that such poor management has deteriorated trust in Government schemes. For example, IfG reports that:

The Green Homes Grant was introduced in 2020 with the dual aim of boosting the post-pandemic recovery and incentivising retrofitting. It offered homeowners vouchers worth up to £10,000 towards various energy efficiency improvements or low-carbon heating systems. However, conflicting objectives, inadequate attention paid to the reality of supply chains, a short timescale and administrative issues meant the scheme failed and it was cancelled after only nine months.⁵³

The recent delay and rebranding of the ECO+ scheme to the GBI scheme also did not help build public trust and confidence.

Going forward, the Government cannot afford to repeat its past mistakes, especially as experts agree that the winter of 2023/24 is not going to be any easier than the previous ones.⁵⁴ Some experts report that "high prices [could become] the norm across the country [... and that] prices are set to remain volatile for a long time, especially if the UK continues to rely

⁴⁹ Gross et al., "Review of Energy Policy 2022".

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Hodgkin and Sasse, "Tackling the UK's energy efficiency problem".

⁵⁴ Ibid.

on imports.”⁵⁵ And finally, some are even concerned that the upcoming winter could be even worse than the last, due to a lack of European gas availability.⁵⁶

Thus, we need adequate policy recommendations that demonstrate a high probability of success in order to prevent another catastrophic winter. However, completely preventing the crisis is not going to be possible for two key reasons. First, many of the causes of the crisis are external and beyond the UK’s control – most notably, Russia’s invasion of Ukraine. Second, many of the domestic causes require long-term solutions before they show effect (e.g., becoming more self-sufficient and less reliant on imports). Nevertheless, as we show in the next section, there are several policies that could be immediately implemented that are likely to make the upcoming winter more manageable.

Policy Recommendations

There are many long-term solutions that could help the UK weather sudden energy shocks in the future. For instance, increasing the storage capacity, transferring to renewable energy, and becoming more self-sufficient are obvious contenders. However, none of these policies can be implemented effectively and produce tangible benefits for the upcoming winter of 2023/24, and as such are outside the scope of this report. Nevertheless, we urge the Government to start thinking about the long-term solutions as soon as possible to make the UK less exposed to price volatility.

In the short term, however, and specifically looking ahead to the upcoming winter, there are two main initiatives the Government could undertake, beyond simply offering subsidies, to help its citizens manage their energy bills – encouraging energy conservation and focusing on reducing demand.

Government instruction on the importance and benefit of energy conservation is key to helping reduce the nation’s overall energy costs. Indeed, as the UKERC reports:

New sources of supply cannot be developed in the very short-term and market-wide subsidies create new fiscal challenges. An essential policy which UK government can act on now with no regrets is energy conservation through unified, independent advice and services to households.⁵⁷

Furthermore, another problem with the Government’s response to the energy crisis has been an overwhelming focus on offering subsidies to consumers, with little attention paid to

⁵⁵ “A brief history of the UK energy crisis”, SEFE Energy.

⁵⁶ Gross et al., “Review of Energy Policy 2022”.

⁵⁷ Ibid.

decreasing demand.⁵⁸ Thus, for the upcoming winter, we argue that the Government also ought to focus on reducing the demand for gas which would, in turn, have a positive impact on the price – as the price of goods or services is impacted by both supply and demand.

The specific recommendations below will assist in efforts to both conserve energy and reduce demand.

- *Reward those who spend less (businesses and public institutions only)*

Instead of offering subsidies to those with excessive and uncontrolled energy bills, the Government *ought to*, at a minimum, offer tax incentives to businesses and public institutions that opt for energy-saving behaviour during the upcoming winter. In practice, the Government should allow businesses and public institutions to decide how (if at all) they want to save energy during the upcoming winter – with one obvious contender being that only rooms in constant use should be heated, with other spaces (such as hallways) being heated less or not at all.

Practically, since both businesses and public institutions keep track of their spending over previous winters it will be relatively easy for the Government to see whether organisations have actually saved energy or simply used the benefits of a warmer winter (should one occur). At the end of the fiscal year, which comes conveniently after the winter, the Government could offer tax rewards (or other subsidies if necessary to public institutions) to those who opted for conservation.

There are several benefits of this policy. First, in the immediate term, energy-conserving public institutions and businesses will find it easier to pay their bills due to their responsible behaviour. Second, they will be able to continue to grow as businesses or institutions due to the tax incentives they will receive as a reward for energy-conscious behaviour. Third, all institutions and businesses know their own needs best – and they themselves will be able to decide how much and at what cost they are able to save energy. Finally, such a policy could serve as an incentive for other public institutions and businesses to choose a more energy-conscious approach in their day-to-day operations. All of these, in turn, will reduce demand and have a positive impact on gas and electricity prices more generally across the country.

- *Subsidise energy efficiency projects for households and businesses*

As argued throughout this paper, UK households are far less energy efficient in comparison to many of their European counterparts. Thus, going forward, the UK Government must motivate businesses and households to make their buildings more energy efficient. Some types of insulation can be installed as quickly as within a month, and in such instances, we

⁵⁸ Ibid.

urge the Government to offer financial subsidies to anyone interested in and eligible for such a project. In the long-run, the Government ought to continue such subsidies so as to encourage energy conservation and make the country more energy efficient generally. But for the upcoming winter, the Government ought to prioritise projects that can commence and be completed before temperatures drop significantly. In reality, there are plenty of simple and low-cost measures that could improve energy efficiency. Thus, we propose an analysis of what kinds of projects can feasibly be conducted before the winter starts, and an immediate commencement of such projects.

Such a policy will not only help with the gas bills of households and businesses that become more energy efficient, but will also likely serve as an incentive to other households and businesses to consider improvement projects. In turn, both of these will have an impact on demand for gas, and subsequently on gas prices as well.

- *Continuation of price caps*

While some of the aforementioned policies are likely to yield benefits when it comes to power bills, it would be naïve to assume that households and business will not struggle during the upcoming winter. As analysed above, there are strong reasons to think that the upcoming winter will be difficult for the UK, as Russia continues to weaponise energy sources. Thus, we urge the Government to continue with price caps (and similar subsidies for energy bills) whenever necessary to help households and businesses survive the winter. In addition, we argue that such caps ought to be income-sensitive: i.e., those who are more financially vulnerable ought to have lower price caps in comparison to those who are in a more privileged economic position. Of course, we are aware that such a policy comes with its challenges – especially when it comes to means-testing and implementing a different cap for different households. Nevertheless, it is our belief that the Government ought to try and implement an income-sensitive price cap system. According to an IMF report from 2022, not only were UK households the worst hit in western Europe, but: “The difference between the cost burden on poor and rich households [was] also far more unequal... compared with other countries.”⁵⁹ Thus, we argue that the Government should use the summer months to figure out how to best use means-testing (which already applies for processes of receiving financial assistance) to determine how high a price cap each household should have.

- *Information campaigns*

Information campaigns about energy saving have been largely missing from the UK’s public discourse or they have started too late in the season to be effective. As UKERC reported in its 2022 annual review: “it is only as Christmas approaches that the Government has announced an information campaign to help householders save energy. Unfortunately, the opportunity

⁵⁹ Carrington, “Energy crisis: UK households worst hit in western Europe, finds IMF”.

to use the summer months to help households adopt the most straightforward home energy improvements has been largely wasted.”⁶⁰ Thus, we urge the Government to start information campaigns immediately, well before the winter months begin, to explain to households and businesses how to save energy most efficiently. Moreover, any policies adopted or pledged must also be clearly explained to the public.

There is strong evidence that information campaigns generally work.⁶¹ Thus, we suggest that the Government creates ‘one-stop-shops’ to help citizens become informed quickly and embark on the journey of improvements efficiently. In addition to ‘one-stop-shops’, the Government needs an overarching, nation-wide campaign, disseminated via different media outlets (from TV and radio to social media platforms) so as to reach as many people as possible. The complexity of energy politics also means that the language used in such campaigns must be plain and simple – clearly communicating what can be done to save energy and what kind of rewards energy-conscious households, institutions and businesses can expect to receive.

- *Consistency*

The UK has seen a politically turbulent year which has damaged the trust that people have in the Government. As the IfG reports, there have been a lot of political shifts and U-turns – from the war in Ukraine that sent shockwaves across the country, to the energy crisis and three different prime ministers – which have further deteriorated people’s confidence in the system.⁶² Going forward, it is essential that the Government ensures consistency in its policies by following through on the commitments it makes, especially when it comes to energy costs – as one of the biggest concerns of ordinary Britons is whether they can afford their energy bills. Thus, moves such as rebranding and delaying the ECO+ scheme are not welcome in this political climate as they create the impression of instability. We urge the Government to be consistent in implementing the policies it pledges, and within the timeframes that are initially suggested.

⁶⁰ Gross et al., “Review of Energy Policy 2022”.

⁶¹ Ibid.

⁶² Hodgkin and Sasse, “Tackling the UK’s energy efficiency problem”.

Conclusion

Russia's aggression and the subsequent weaponisation of energy sources has hit the UK particularly hard, for reasons which often pre-date and are unrelated to Russia's invasion of Ukraine. If anything, Russia's aggression and the subsequent global energy crisis only revealed some of the structural weaknesses of the UK system in the face of a sudden, external shock (e.g., insufficient storage facilities).

While there are many long-term policies that could make the UK less exposed to price volatility, and which the Government should consider and commence as soon as possible, this report focuses solely on immediate initiatives that the Government can undertake to help Britons manage the upcoming winter of 2023/24, which is likely to be as difficult as the previous one.

It is important to be realistic about what can be done within the two months from August to October, when we can reasonably expect that temperatures will start to fall. Although we can assume that the recommended policies are unlikely to necessarily make the winter easy for Britons, these policies, if implemented by the Government in a timely fashion given the limitations, can most certainly make the winter more manageable, and help maintain public morale as the war in Ukraine continues. What is more, we propose the continuation of these policies throughout the winter itself as some of them could be completed while the temperatures are low, thereby helping households for at least part of the 2023/24 winter. Our expectation and hope is that, if done promptly and properly, the continuation of the newly implemented policies will also improve both the finances and physical comfort of Britons into the 2024/25 winter as well.



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