Energy suppliers, tariffs & bills

The energy market is confusing at the best of times, and especially when you have to take responsibility for your bills directly. This guide will explain the basics about energy suppliers and tariffs, what you pay for when you pay your energy bill, and an overview of what your energy bill can tell you.

What are energy suppliers?

Energy suppliers are companies who **buy energy in the wholesale market** (from **generators** who make the energy; energy suppliers **do not** produce energy themselves unless they are also generators), **and then sell it on** to consumers. You can think about it as if the energy suppliers are supermarkets, who buy products (gas and electricity) from producers (i.e. generators like BP) wholesale, for you to buy them further down the line.

Energy suppliers are the **companies which you pay your bills to**.

Energy tariffs

Your energy tariff **sets the price you pay** for your gas and electricity. The two main types of tariff are fixed rate (which sets the cost of energy for a certain amount of time) and variable (on which prices can go up and down according to the market). The default tariff your supplier offers is typically a **standard variable tariff**, and you will be on it unless you specifically choose a different one. This type of tariff is the one where standing charge and unit rate costs are capped by Ofgem (more on those below).

Tariffs can be labelled as green, and promise renewably sourced electricity, and sometimes also gas. On such tariffs, your supplier buys the promised % of your energy use from renewable sources, and your energy usage adds to the demand for renewable energy.

What you pay for when you pay your energy bill

There are three things you pay in your bill for each fuel (electricity and gas):

- **Standing charge** – a fixed daily amount you have to pay, regardless of how much energy you use. It covers the cost of supplying your property with gas and electricity, and maintaining the UK's energy distribution networks. Standing charges vary by region and supplier. Since April 2022 the standing charge also covers administrative costs of switching customers from failed suppliers to new ones.

- **Energy used** – calculated by unit rates, i.e. the price per unit of gas and electricity you consume at home. Gas and electricity are measured in kilowatt per hour (kWh), and a unit rate is a cost of each kWh used.
- **VAT –** domestic energy supply in the UK is currently taxed at 5% (of the sum of the standing charges and unit rates used in the specific time period).

Understanding your energy bill

Below is an example bill and what it should include, regardless of if your bills arrive by post, email, or if you access them via your provider's app.