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Move Britain's gas power stations to contracts to ***prevent excess profits***

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New analysis by UCL shows that during the energy crisis, UK gas power stations made approximately **£4bn extra profit**. This is due to the workings of the wholesale market, where volatile energy prices drive a boom or bust market. In times of boom, gas generators make excess profits, while bills and fuel poverty surge.

The government should move to a new approach where the revenue of gas power stations is set by centrally allocated contracts. This would avoid excess profits, and could lower electricity bills for consumers by £130–£270 a year by 2030. This is the first step towards a Consumer-First Power Market that would save consumers billions across the country.

£4bn

Profits made by UK gas power stations over 2021–2022, in excess of running costs and an 8.5% rate of return.

This is demonstrated in new analysis from UCL, supported by E3G.[1]

These profits result from the market structure, not any malpractice.

- In a wholesale electricity market, the most expensive provider of power sets the price.
- The cheaper power stations reap the excess as profit.

The electricity market was set up in the expectation that profits would incentivise power companies to invest in new assets. This is no longer relevant. Investments are now the result of direct government support.

That means the consumer is paying twice. Once for taxpayer-supported investments, and once for profits passed on to shareholders that the market makes inevitable.

Moreover, the current arrangements are increasingly unhelpful for managing a renewables-based energy system that will require back-up power. Government will need to ensure this back-up power is provided at least possible cost to consumers, and that it guarantees security of electricity supply.

Revenues for back-up power would be very uncertain under current arrangements. This risks under-investment or consumers paying a premium. Moving to centrally allocated contracts would provide consistent, low-risk revenue for power stations. Reducing risk would lower financing costs, in turn lowering bills for consumers.

Progressively moving generators onto contracts would make the wholesale market redundant, improving other problems with our current energy arrangements. For example, it would allow suppliers to focus on providing high-quality customer service as their business would no longer be subject to wholesale market risk. It would also help ensure the UK builds generators in the right place, as it would allow more coordination with network availability.

1 Available from: **https://www.e3g.org/publications/britain-gas-power-stations-profits-energy-crisis-market-reform/**

Towards a Consumer-First Power Market

A system based on centrally allocated contracts would limit volatility for consumer bills and curb excess power station profits. We call this the Consumer-First Power Market.

Government would offer fixed price contracts based on the characteristics of the asset. It would no longer offer subsidy through other routes, such as Capacity Market contracts.

These contracts would initially operate alongside the wholesale market, and eventually replace it. The government would procure contracts for any new gas power stations using competitive auctions to get a good deal for consumers.

Financing costs for power stations would also be lower as returns become consistent and low risk.

Credit: Fokke Baarssen / Adobe

The UK government is already using centrally allocated contracts to drive investment in renewables, nuclear and long duration energy storage.

£130–£270

Amount consumers could save on annual electricity bills in 2030 if the government fully embraced moving to contracts.[2]

89

Number of countries worldwide that already meet energy needs through centrally allocated contracts – the so-called "single-buyer" model.[3]

It is time for the UK to move away from incremental fixes and establish a new vision for the electricity market.

We call for government to take the next step by moving gas power stations to fixed price contracts.

Contact us

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2 Brown, D. June 2026, **Fixing the Price: How a single buyer model could slash UK electricity prices and build consent for the clean power mission**; **3** World Bank Group, **Global Power Market Structures Database** (2024 data)