Dear Chancellor,

Moving levies from electricity bills to the Exchequer

The UK faces some of the highest energy costs of any developed nation. The British economy has confronted two energy crises in the last five years alone, and energy bills are currently 70% higher than they were in 2021.[1]

This has had profound consequences on the cost of living and economic growth. High energy costs are widely recognised as a significant constraint across the economy, driving business closures and job losses, while simultaneously deterring investment in the UK. Many households are struggling, with 85% reporting they are worried about energy bills and domestic energy debt on course to reach £7 billion this year.[2] Government's announcement that it will temporarily remove VAT from domestic electricity bills is a positive step. However, further action is needed – both for households, and for businesses.

Without further, more longstanding intervention, high and unstable energy prices will continue to damage household living standards and hinder growth throughout the UK. Electricity is a particular concern as we currently suffer from some of the highest prices in the developed world, standing 45% above the G7 median.[3]

Realising the UK's economic potential requires a material change in how we approach energy costs. Affordable power is the foundation of electrification, enabling businesses to scale, compete internationally and create jobs in the UK, and supporting households to experience lower, more stable bills over the long-term. Cheaper electricity would have an outsized economic impact because it acts as a clear incentive to adopt low-carbon technologies and invest in UK businesses. This creates a virtuous cycle, enabling the fixed costs of the electricity system to be spread over more demand, further lowering electricity costs for all customers.

The Government's sustained focus on expanding homegrown clean power generation has already delivered clear benefits during the current crisis, helping to strengthen our security of supply and beginning to reduce our exposure to volatile international gas markets. This has provided a solid foundation for the transition ahead.

However, the same focus must now be given to the next phase of delivery, driving electrification of energy demand. The UK is an international outlier in funding most major energy and decarbonisation policies through electricity bills. The Autumn

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[1] Ofgem (2026), Energy price cap (default tariff) levels

[2] Which? (2026), Consumer Worries Dashboard, updated in April 2026; Energy UK (2026), Energy debt: Everyone pays

[3] Department for Energy Security and Net Zero (2026), International non-domestic energy prices; Note: Average of 2023 and 2024 figures.

Budget 2025 package, which shifted some of these levies from household bills to the Exchequer, was a very welcome start but did not go far enough.

Moving electricity levies from both business and household bills to government spending would immediately make energy costs more affordable and competitive, providing a greatly needed boost for our manufacturing industries and tackling cost of living challenges. It would also address distortions that undermine investment in electrification and improve UK security by making better use of homegrown power generation, reducing our reliance on energy imports.

The wide-ranging benefits include:

- **Reducing energy bills** – Moving levies to the Exchequer would lower business electricity prices by up to 20% and bring the total average domestic energy bill reduction achieved by this government to as much as £250 a year.[4]
- **Tackling fuel poverty** – Low-income households spend three times the share of their income on levies as wealthier households.[5] Moving levies to the Exchequer would save a typical electrically heated household, which is twice as likely as other homes to be in fuel poverty, as much as £420 per year.[6]
- **Boosting the UK economy** – Over 40% of companies are cutting investment due to high energy costs.[7] Reducing electricity prices to the G7 median could drive an additional £250 billion of economic output over the next decade.[8]
- **Bringing down inflation** – The Autumn Budget 2025 energy bills package is expected to lower CPI inflation by 0.25 percentage points in 2026/27.[9]

The UK has a clear opportunity to unlock growth and strengthen living standards by addressing high electricity costs. With the right approach, the UK can remove barriers to investment, compete on the global stage, and fully realise its economic potential in a competitive, low-carbon future.

Yours sincerely,

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[4] Analysis by the Electricity Bills Taskforce. For more details, contact chris.galpin@e3g.org. Note: Includes the impact of the Autumn Budget 2025 energy bills package.
[5] MCS Foundation (2026), The case for further levy reform: Impacts on energy bills, fuel poverty and the clean heat transition
[6] Department for Energy Security and Net Zero (2026), Annual fuel poverty statistics report: 2026; Ofgem (2023), Decision on revised Typical Domestic Consumption Values for gas and electricity and Economy 7 consumption split; Energy UK analysis. Note: Includes the impact of the Autumn Budget 2025 energy bills package.
[7] CBI & Energy UK (2026), Cutting business energy costs: A blueprint to boost growth
[8] PwC UK (2026), Powered up or priced out? The £250bn case for a national energy plan
[9] Office for Budget Responsibility (2025), Economic and fiscal outlook – November 2025

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