



The Geopolitical Consequences Britain Cannot Afford to Ignore

A simple fiscal switch could shield UK households from a summer surge in electricity costs and, remarkably, more than pay for itself

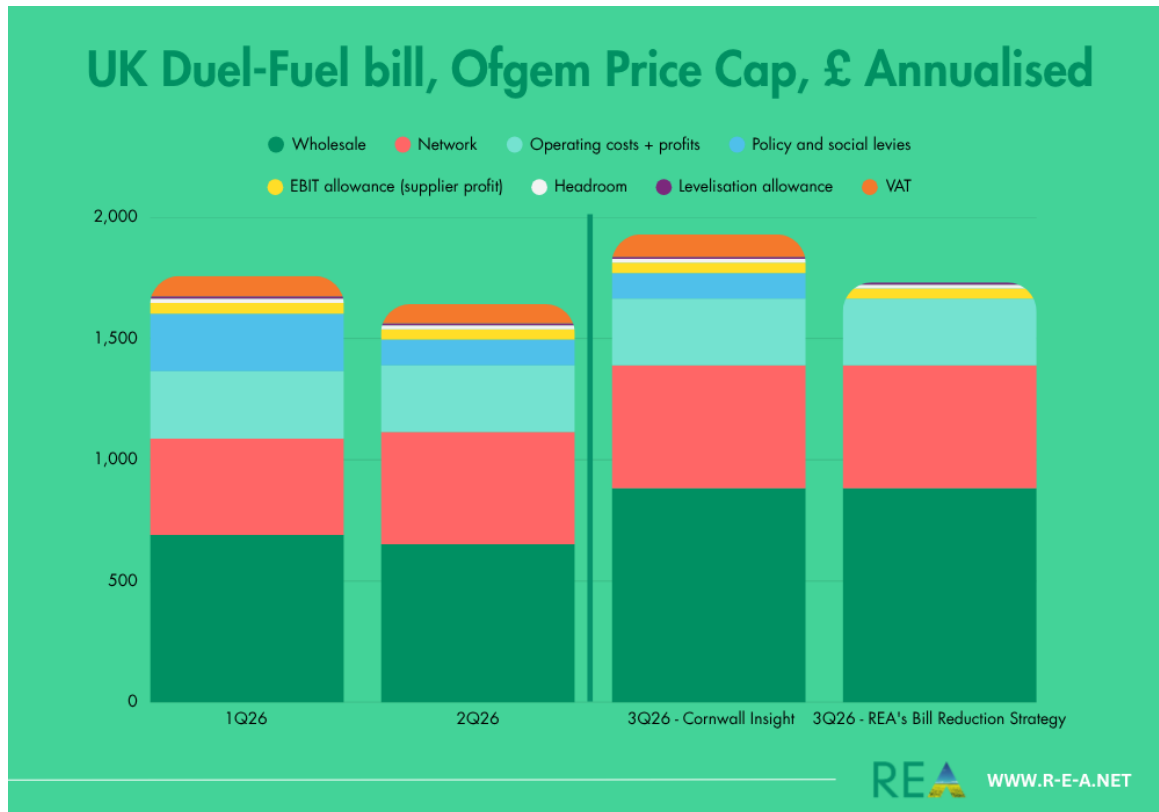
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Unless we act now, millions of British households will face much higher electricity bills from July (when the next price cap takes effect). [Cornwall Insight predicts](#) that the typical dual-fuel household bill will rise to £1,929 from July, nearly £300 higher than April's recently announced Ofgem figure, as geopolitical tensions push gas prices sharply higher. With May's local elections looming this could be too bitter a pill to swallow.

The root of the problem is well understood in policy circles but not among the public. Gas sets the marginal price of electricity in the UK most of the time, even as gas' share of power generation falls, meaning that geopolitical disruptions (such as halted gas flows through the Strait of Hormuz) drive up UK electricity prices. The best medium- to long-term strategy is to invest heavily in renewables, so gas only rarely acts as the marginal source of generating UK power, but the UK needs to act now. Renewables still offer some short-term relief as many Contracts for Difference (CfDs) are already paying back into the system (as wholesale costs rise above many CfD prices), but not enough to insulate bills from the coming shock.

The REA recommends a relatively straightforward solution: by removing both VAT and levies from household electricity bills, the government could cut the typical dual-fuel household bill by around £200, shaving 10.3% versus the alternative scenario outlined by Cornwall Insight. The cost to the Treasury would be approximately £5.7 billion but the benefits could exceed this cost.

It's rare to find a tax that essentially pays for itself, but this is such an occurrence. Shifting levies and VAT from electricity bills onto general taxation is, in effect, a redistribution from a regressive charge to a progressive one: income tax rises with income, while electricity bills account for a higher proportion of lower income households' costs. Lower bills equate to higher disposable incomes, which in turn leads to higher consumer spending (a key component of GDP), which results in additional tax revenues.



The REA models the net effect at £6.2 billion of additional annualised economic activity, enough (assuming [tax buoyancy of 0.99 according to IMF research](#)) to generate a similar level of additional tax receipts. The £5.7 billion cost, in other words, is more than recovered, plus the huge shock of seeing bills surge (as forecast by Cornwall Insight) is avoided. It's not often a solution is available that not only keeps inflation lower, boosts consumer spending and hands a fiscal surplus back to government.

The broader macroeconomic case matters too. Electricity prices feed directly into the consumer price index (CPI). A 10.3% reduction in household bills, versus the alternative Cornwall Insight scenario, is only 0.6% up on the July 2025 bill (which is the key determinant for measurements of inflation, vs. the 12% year-on-year hike resulting from Cornwall Insight's scenario) would ease inflationary pressure. The last thing the beleaguered UK consumer needs right now is for the Bank of England to be forced to hike interest rates.

Removing levies and VAT from household bills addresses at least part of the immediate crisis, but the UK's structural vulnerability to fossil-fuel shocks will persist until more homes and businesses are weaned permanently off gas. The government's recent [Warm Homes Plan](#) is a fantastic step in the right direction but unfortunately, even with these supports, for most ordinary households rooftop solar, battery storage and heat pumps remain too expensive. The real game changer is in the payroll system. The salary sacrifice scheme has demonstrated, with EVs, that making green technology tax-



efficient can transform a niche market into the mainstream. EV uptake surged when employees could spread the cost through their gross pay; the same mechanism would work wonders for domestic energy systems, massively reducing the UK's vulnerability to fossil-fuel shocks. Households that install rooftop solar, heat pumps and battery storage can cut their bills by an average [£550 a year](#), reduce peak demand on the grid (lessening the loftier investment plans that have been outlined, potentially lowering the cost) and diminish the UK's dependence on expensive imported gas. The multiplier effect across millions of homes would be substantial.

Collectively these two strategies would curb the degree to which bills increase this year, while setting the UK on a more resilient long-term basis with regards future fossil-fuel supply shocks. Neither strategy requires a large net outlay compared to the previous £44 billion energy bill support, but both require political will, which given July's pending price cap surge could be the perfect opportunity for action.

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About Matt Parry:

Matt Parry is Head of Energy Demand and Power at the Renewable Energy Association (REA), where he leads strategic analysis across power markets and the energy transition. He also serves as Secretariat to four of the REA's flagship member forums: Solar & Storage, Decentralised Energy, Data Centre, and Finance & Insurance.

With more than 25 years' experience across global energy markets, Matt has held senior leadership and advisory roles at the International Energy Agency, The Economist (as Chief Energy Economist), Energy Aspects (VP, Head of Long-term), Moody's, KBC Group, Department for Energy Security and Net Zero, STX Group, and CRU Group. Notably, he built Energy Aspects' long-term and energy transition service from inception into a market-leading analytical offering.

Matt has established and led high-performing analytical teams translating complex dynamics across renewables, power, hydrogen, gas, oil, and carbon markets into actionable intelligence for investors, policymakers, and corporates. His expertise spans quantitative modelling, policy analysis, scenario development, and strategic forecasting, including detailed energy demand outlooks to 2050 across more than 80 countries.

About the REA (Renewable Energy Association):

The REA is the UK's largest trade association for renewable energy and clean technologies with over 400 members operating across heat, transport, power and the circular economy. The REA is a not-for-profit organisation representing 14 sectors, ranging from composting, biogas and renewable transport fuels to solar, storage and electric vehicle charging. Membership ranges from major multinationals to sole traders, giving the organisation a unique perspective on the challenges and opportunities facing the sector. The REA is one of



only two UK energy trade associations with official observer status to the UNFCCC, enabling it to provide Blue Zone accreditation at COP30 and to represent UK clean energy on the international stage. For more information, please visit: www.r-e-a.net.

NOTE TO EDITOR:

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