



## **UK energy bills to rise in July as geopolitical strains hit gas**

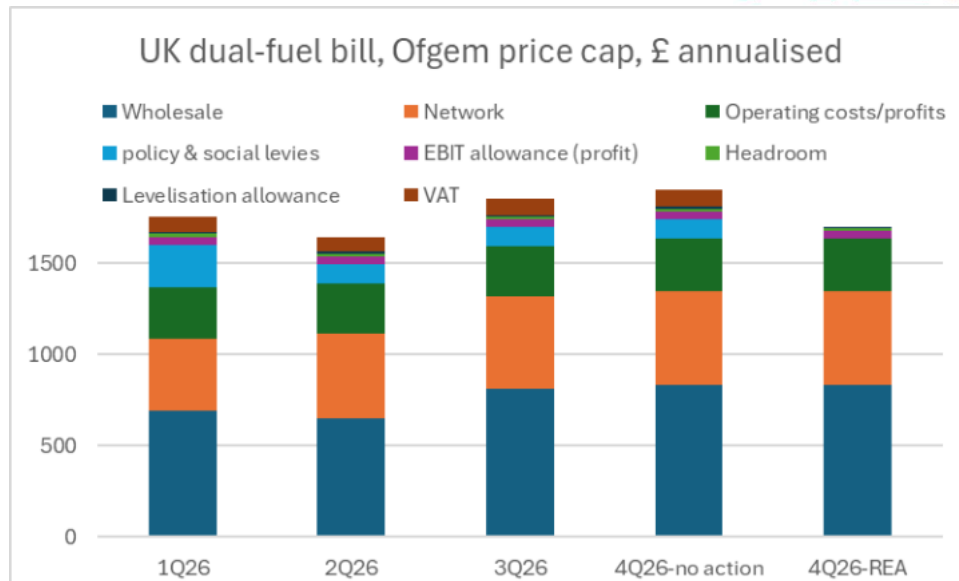
Author: Matt Parry, Head of Energy Demand and Power at REA

*Winter is coming, and unless ministers act now, the economic damage will be severe*  
With [Ofgem announcing a 13% rise in the energy price cap](#) from July, as geopolitical tensions push gas prices sharply higher (around a fifth of world's LNG disrupted by the closure of the Strait of Hormuz), it is increasingly clear that the government needs to take urgent action on bills to protect households and the broader economy. The increase will lift the typical dual-fuel bill to £1,862 a year, further squeezing consumers already under pressure from the cost-of-living crisis. Ministers will need to act before the next price cap is announced in late-August. Targeted support alone will not be sufficient; without wider help on bills, the risk of serious macroeconomic damage is real.

The price cap is the default tariff paid by most UK households for gas and electricity. Ofgem's 13% increase for July to September, compared with the April-to-June period, is driven largely by gas, which rises by 24%; electricity is up by a more modest 5%, as the growing share of renewables in Britain's power mix begins to bear fruit. The direction of travel is right. The pace, unfortunately, is not nearly fast enough to influence Ofgem's next price cap announcement, due in late-August.

A 13% rise in the typical dual-fuel bill, alongside sharp increases already visible in airfares, food and gasoline/diesel, will squeeze UK economic growth from two angles. First, higher inflationary pressure will add to the case for higher interest rates, lifting borrowing costs and weighing on economic activity. Second, dearer gas and electricity will leave households with less to spend on other goods and services, directly curbing economic activity. July's price cap rise deepens the strain on an economy already under pressure; unless ministers act, the outlook will deteriorate in October, just as demand picks up in the autumn/early-winter.

Ofgem's decision adds more than £210 to the typical annual dual-fuel bill compared with April. Although there is much uncertainty around gas prices, they are likely to remain elevated for weeks regardless of how events in the Strait of Hormuz unfold, as much of the region's LNG capacity has been damaged, and European gas storage (at around 38% full) remains well below the 5-year average (52% full). On current trajectories, the typical dual-fuel bill could rise to around £1,900 a year from October without government intervention. The REA is proposing a relatively simple answer: scrap VAT and levies on household electricity bills, cutting the typical dual-fuel household bill by around £200, or 10.5%, compared to the scenario in which ministers do nothing. The Treasury would forgo about £5.7 billion over the course of a full year, but the benefits could exceed that cost.



Shifting levies and VAT from electricity bills onto general taxation would, in effect, move the burden from a regressive charge to a more progressive one. Income tax rises with earnings; electricity bills consume a far larger share of a lower-income household's budget. Lower bills would leave households with more disposable income, lifting consumer spending and, by extension, GDP and tax receipts. The REA estimates the net effect at £6.4 billion of extra annualised economic activity, which (assuming a [tax buoyancy of 0.99 according to IMF research](#)) should generate a similar amount of additional tax revenue. In other words, the £5.7 billion cost would be more than offset, while fragile households would be spared another spike in energy bills. Removing levies and VAT from household electricity bills would therefore not only keep inflation lower but also support spending and leave the Treasury better off.

The broader macroeconomic case reinforces the point. Electricity prices feed directly into the consumer price index. A 10.5% reduction in household bills, relative to the alternative 4Q26 scenario, would be disinflationary when compared with the correspond bill in 2025, which was 3% higher than our 4Q26 forecast if both levies and VAT are removed from bills. Scrapping both levies and VAT from bills in 4Q26 would therefore help to ease inflationary pressure. The last thing a beleaguered UK consumer needs is for the Bank of England to be forced to raising interest rates.

Removing levies and VAT from household bills would help with the immediate crisis, but the UK's structural exposure to fossil-fuel shocks will not disappear until more homes and businesses are permanently weaned off gas. The government's [Warm Homes Plan](#) is a welcome step in the right direction, but even with this support, rooftop solar, batteries and heat pumps remain too expensive for most ordinary UK households.

The biggest prize lies in the tax system. The success of salary sacrifice for EVs shows how quickly a green technology can move from niche to mainstream once it



becomes tax efficient. A similar approach could do much the same for home energy, helping households spread the cost of solar panels, batteries and heat pumps through gross pay. That would cut bills, reduce peak demand on the grid and lessen the need for costly network investment, while also shrinking Britain's dependence on imported gas.

The gains would not stop at the household level. According to the Warm Homes Plan, households that install rooftop solar, heat pumps and batteries can cut their bills by an average [£550 a year](#). Multiplied across millions of homes, that would amount to a meaningful shift in demand, resilience and consumer spending power. In other words, the policy case is not just about lower bills; it is about building a system that is cheaper, cleaner and less exposed to the next fossil-fuel shock.

Collectively the measures would limit the extent to which bills rise, while putting the UK on a firmer footing for the next fossil-fuel shocks. Neither would require anything like the scale of the £44 billion spent on energy bill support after Russia's invasion of Ukraine, but both would demand political will. With July's price cap rise now looming, the moment for action is now.

### **Notes to editors:**

#### **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.

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](http://www.r-e-a.net).



**For media enquiries, please contact:**

Aisha Afeef, Communications Executive: [aafeef@r-e-a.net](mailto:aafeef@r-e-a.net)