ENERGY COST REBALANCING

EIUG POSITION PAPER

Introduction

This EIUG position paper sets out the cost of various levies and obligations on electricity suppliers and various stakeholder views on how to 'rebalance' them. The EIUG's position is for the Government to rebalance these costs to the Exchequer, and not on to gas prices.

Whilst the role of gas in electricity generation is expected to decline as the UK shifts to clean energy sources, it continues to remain a vital energy source in the UK for now not only to heat most homes, but as a source of heat for energy-intensive processes and a source of raw material to manufacture essential products, such as chemicals for plastics, fertilizers, and other products.

The EIUG recognises that the Government is taking steps to reduce the industrial electricity price gap through the British Industry Supercharger scheme, though further progress is still needed and not all energy-intensive industries in eligible sectors benefit. However, moving the cost of levies and obligations onto gas prices will significantly increase gas prices relative to other countries, putting gas-intensive industries at a severe competitive disadvantage internationally. Had such a move been implemented in 2024, it would have driven a 44% increase in industrial gas prices.

The EIUG does not support moving the cost of levies and obligations on to gas prices. If the Government were to pursue this option then it should also establish from the outset equivalent exemption schemes for gas intensive industries, mirroring those already available for electricity-intensive industries to safeguard their ability to compete internationally.

Total Policy Costs and Electricity Prices

The table below sets out the annual cost of environmental levies and taxes based on OBR's lates economic and fiscal outlook (March, 2025), including tax revenues from the Climate Change Levy, Carbon Price Support Mechanism (carbon tax) and UK Emission Trading System. Two additional columns translate these levies and taxes into their impact on electricity prices for 2025-26 and 2029-30, using DUKES statistics from 2024 and Government's market traded values of carbon. The analysis shows that the various levies and taxes on non-domestic electricity prices amount to £76.2/MWh and £99.2/MWh for 2025-26 and 2029-30 respectively.

Figure 1. Total annual policy costs and impact on electricity prices

Environmental levies and taxes								Electricity Price	
	£ billion							£/MWh	
	Outturn	Forecast						Forecast	
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2025-26	2029-30
Renewables obligation	7.6	7.8	8.2	8.5	6.9	7.0	7.0	33.5	28.4
Contracts for difference	1.8	2.3	1.4	2.2	2.9	2.6	2.9	5.6	11.8
Capacity market	0.0	1.3	1.8	3.2	4.0	4.0	4.0	7.5	16.4
Green gas levy	0.0	0.0	0.1	0.1	0.2	0.2	0.2	gas meter point	
Climate change levy	1.2	1.4	1.5	1.5	1.5	1.5	1.7	0.6	
Carbon price support mechanism	0.6	0.4	0.4	0.4	0.3	0.2	0.2	7.9	7.9
UK emission trading system	6.0	3.5	2.6	2.5	2.5	2.1	1.7	21.2	34.7
Gas shippers obligation	0.0	0.0	0.0	0.0	0.0	0.2	0.2	gas price	
Total	**17.4**	**16.7**	**16.0**	**18.4**	**18.3**	**17.9**	**17.9**	**76.2**	**99.2**

Source: OBR Economic and Fiscal Outlook (March 2025), DUKES 2024 and own calculations

The total estimated cost of Renewables Obligation (RO), Contract-for-Difference (CfD) and Capacity Market (CM) for 2025/26 amounted to £11.4bn, based on the OBR estimates above. The RO and CfD have an estimated electricity price impact of £33.5/MWh and £5.6/MWh in 2025/26 and £28.4/MWh and £11.8/MWh in 2029/30 respectively. The price impact of the CM is notoriously difficult to calculate.

Unfortunately, the OBR estimates no longer include the cost of the Feed-in Tariff (FiT) to financial support the deployment of small-scale renewable electricity. The FiT scheme finances their deployment via an obligation on electricity suppliers. Though the scheme closed in April 2019, renewable installations under the scheme are subsidised for a period of between 10 and 25 years, depending on technology type. Ofgem's latest annual report about the FiT scheme – covering April 2023 to March 2024 – puts the total scheme cost over that year on £1.8bn. This equates to an electricity price impact of £7/MWh on average. Assuming that the FiT cost have not fallen by that much, it means that the total cost of these renewable deployment schemes amount to approximately £13.1bn in 2025/26.

Under the British Industrial Supercharge scheme – consisting of full exemptions from the Renewables Obligation, Contract-for-Difference, Feed-in Tariff and the capacity market as well as compensation for network charges, most but not all electricity intensive industries are relieved from these policy and network costs.

Energy Costs Rebalancing Discussion

In 2023, the then BEIS Secretary of State commissioned Chris Skidmore MP to review the government's approach to delivering its net zero target to ensure that it is delivering net zero in a way that is pro-business and pro-growth. One of the recommendations of the Independent Review of Net Zero[1] was for the Government to commit to outlining a clear approach to gas vs. electricity 'rebalancing' by the end of 2023/4, and to make significant progress affecting relative prices by the end of 2024. The Energy Security Plan from 2023 subsequently accepted this recommendation, but the Government has never followed it up.

In its advice to Government on the 7th carbon budget[2], the Climate Change Committee has been unequivocal: to make electricity cheaper, households and businesses need to be better incentivised to make these choices through the impacts they will see on their bills, stating that this "*can be done through rebalancing prices to remove policy levies from electricity bills*".

EnergyUK published a paper on reducing non-domestic electricity prices to drive economic growth in April 2025[3]. The paper states that "*achieving a shift in gas-to-electricity price ratios requires legacy policy costs and Climate Change Levy (CCL) payments to be removed from electricity bills as the grid decarbonises, alongside increases in gas CCL rates for most sectors. The revenue from gas CCL is likely to fall*

[1] Rt Hon Chris Skidmore MP (2023), *Mission Zero. Independent Review of Net Zero*.
[2] Climate Change Committee (2025), *The Seventh Carbon Budget. Advice for the UK Government*, London: theCCC
[3] EnergyUK (2025), *Reducing non-domestic electricity prices to drive economic growth*, London: EnergyUK

over time as usage is reduced, however this should help cover the period where Renewable Obligation (RO) and Feed-in Tariff (FiT) costs are still high and wholesale electricity prices have not yet declined. This would leave £1 - 4 billion of annual revenue to be recovered by general taxation as well as hypothecated Carbon Border Adjustment Mechanism (CBAM) and Emissions Trading Scheme (ETS) revenues. Hypothecated revenues could cover the shortfall, but only if carbon prices are high" (p. 2). It recommends that Government "*consults on options to rebalance non-domestic electricity and gas bills this year and allocates funding for it in the Spending Review to keep British businesses in the UK and achieve legally binding carbon budgets*". Unfortunately, the Spending Reviews 2025 stayed silent on this issue.

The Aldersgate Group also advocated for rebalancing, as set out in their briefing[4] about next steps for UK industrial decarbonisation. It stated that "*most of the policy costs incurred by non-domestic consumers are allocated to electricity, leading to an artificial increase in its price and making electrification a less feasible option. To make electrification more competitive across industry, levies could be rebalanced, with more costs funded through general taxation, gas bills or a blend of both. The rebalancing of costs must be done in a way that aims to avoid or mitigate unintended competitive distortions, as some companies will not be able to electrify and others in areas with a constrained grid will not be able to take immediate advantage of cheaper electricity*".

EIUG Position

While most – but not all – electricity-intensive industries benefit from exemptions under current schemes, the EIUG's position is for the Government to rebalance all the costs of levies and obligations on electricity suppliers costs to the Exchequer.

Government should never have put these cost on electricity suppliers in the first place. The RO, CfD and FiT do not address a particular market failure, but simply raise finance to subsidise deployment of selected renewable technologies. Raising finance via levies and obligations on electricity suppliers is economically regressive (less wealthy consumers pay proportionally more than wealthier consumers), puts businesses who trade internationally at a significant competitive disadvantage and distorts economic incentives. It is not value-for-money compared to direct Exchequer funding.

The Government could also rebalance these costs from electricity to gas. The EIUG does not support this. Moving them to gas prices would put up gas prices for gas-intensive industries, putting them at a significant competitive disadvantage internationally, with serious implications for jobs and investment. Such a move would simply shift the current industrial electricity price gap, which Government is seeking to

[4] Aldersgate Group (2025), *Next Steps for UK Industrial Decarbonisation Policy in 2025*, Briefing, London: Aldersgate Group

address through the British Industry Supercharger scheme, into an equally damaging industrial gas price gap.

The table below show the gas price impact if the RO and CfD were transferred from electricity to gas. It would have increase gas prices by 66.4p/therm with the preliminary average retail gas prices for very large gas consumers being 132.8p/therm in 2024 . It would have meant a 50% increase. The preliminary average retail gas price for very large gas consumers for the first quarter of 2025 is 137.5p/therm which would have meant a 47% increase.

Figure 2. Impact of rebalancing RO and CfD cost to gas prices

	2024	2025	2026	2027	2028	2029
Gas price impact (p/therm)	66.4	64.6	69.3	66.3	63.8	63.5

Source: OBR Economic and Fiscal Outlook (March 2025), DUKES gas consumption statistics 2024 and own calculations

EnergyUK (2025) states that "*Moving all policy costs onto non-domestic gas customers is not possible as many businesses will necessarily continue to be reliant on gas. This may be due to technical limitations around the adoption of low carbon alternatives or lack of alternative fuel supply/infrastructure*". If the Government were to rebalance these policy cost to gas prices then it should also establish from the outset equivalent exemption schemes for gas intensive industries, mirroring those already available for electricity-intensive industries to safeguard their ability to compete internationally.

Conclusion

The various levies, obligations on electricity suppliers and taxes have a substantial impact on non-domestic electricity prices estimated at £76.2/MWh and £99.2/MWh for 2025-26 and 2029-30 respectively. While the British Industry Supercharger scheme exempts most, though not all, electricity-intensive industries from the costs associated with the RO, CfD, FiT, and Capacity Market, EIUG's position is that these costs should be transferred to the Exchequer.

Other organisations also call for a rebalancing from electricity prices to the Exchequer, though some also argue for a rebalancing to gas prices. EIUG strongly opposes this options as it would significantly increase industrial gas prices putting gas-intensive industries at a severe international competitive disadvantage. It would merely shift the industrial electricity price differential that the Government is addressing via the Supercharger scheme onto gas, undermining UK gas intensive industries.

If the Government were to pursue this option then it should also establish from the outset equivalent exemption schemes for gas intensive industries, mirroring those already available for electricity-intensive industries to safeguard their ability to compete internationally.

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