

The Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road, Westminster
London, SW1A 2HQ

Dear Chancellor,

Prioritising the reduction of levies on electricity

We welcome reports the government is considering options to reduce taxes and levies on domestic energy bills. Energy bills remain over a third higher than they were before the gas crisis [1]. Household energy debt has reached a new record high of £4.4bn [2], and energy now accounts for nearly 5% of average household spending [3]. The government urgently needs to act to address the cost of living crisis and lower household energy bills [4].

Energy price increases since 2022 have been predominantly driven by increases in gas prices. However, taxation and levies also artificially inflate electricity bills by around 25% [5]. As well as increasing bills, this deters investment in electrifying our economy. Electrification is crucial to lowering energy bills, and is the only option for keeping energy bills stable and low in the long-term [6, 7].

Removing a portion of levies from electricity bills, without reducing investment in energy efficiency, would deliver an immediate, universal energy bill reduction for all UK households, as well as addressing a distortion which poses a barrier to electrification. If it is not possible to reduce both VAT and other energy levies in the same budget, we urge you to prioritise reducing the levy burden on electricity bills, rather than delivering a VAT reduction split more thinly across electricity and gas.

Prioritising electricity bill reductions, rather than reductions divided between electricity and gas, would:

- Deliver greater benefits for a larger number of households (as 100% of households use electricity whereas only ~70% of households use mains gas)
- Deliver greater benefits to electrically-heated households, who are twice as likely as other households to experience fuel poverty, and
- Have a greater impact on economic growth, decarbonisation and energy security by incentivising electrification.

Levies on electricity are a handbrake on electrification, and an unfair burden disproportionately felt by households least able to bear them. We urge the government to prioritise the reduction of levies from electricity bills as a critical step in reducing energy bills, fighting fuel poverty and delivering greater economic growth.

Yours sincerely,

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References

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- [2] Ofgem (2025). Debt and arrears indicators: [Debt and arrears indicators | Ofgem](#)
- [3] - ONS (2025). Family spending in the UK: April 2021 to March 2022 [Family spending in the UK - Office for National Statistics](#)
- [4] - House of Commons Energy Security & Net Zero Committee (2025). Tackling the energy cost crisis: [Tackling the cost of the energy crisis](#)
- [5] - E3G based on analysis by Baringa.
- [6] - E3G (2025). The UK's clean power mission: Delivering the prize: [The UK's clean power mission: Delivering the prize - E3G](#)
- [7] - E3G (2025). Heat pumps have the potential to halve UK heating bills: [Heat pumps have the potential to halve UK heating bills - E3G](#)