

# Reduce the cost of electricity

## About The MCS Foundation

Our vision is to make every UK home carbon-free. The MCS Foundation helps drive positive change to decarbonise homes heat and energy through our work programmes, grants and advocacy. We support engagement programmes, fund research and facilitate innovative solutions to drive widespread adoption of renewables to help achieve a Net Zero future. In addition, the Foundation oversees the [Microgeneration Certification Scheme \(MCS\)](#) which defines, maintains and improves quality standards for renewable energy at buildings scale.

### The issue:

- Most options for low-carbon heating, including heat pumps, depend on electricity.
- The current allocation of policy costs contributes to electricity (an increasingly low-carbon electricity source) being more expensive than natural gas or oil.
- Social and environmental levies currently account for around 16-17% of overall electricity bills.

### The ask:

- **Move social and environmental levies from electricity bills to elsewhere in the tax system.**
- This would be cost neutral if they were moved into general taxation through a point on the top rate of income tax for higher tax earners.
- This would be a progressive measure as those outside the tax system would no longer pay the subsidies, which would also help alleviate fuel poverty.
- The reduction in bills would save up to £300 a year for an all-electric household, making heat pump running costs more economical than gas boilers

## The detail:

Currently the way our electricity market operates and how the pricing structure works is very complex, which has led to the UK having some of the highest electricity costs in Europe. There is an urgent need to reform the electricity pricing structure, with the aim of reducing costs for consumers, while still providing enough profit to support investment and growth in the renewables sector.

Most options for low-carbon heating depend on electricity, including heat-pumps. Making electricity less expensive will also boost government efforts to install heat pumps as their preferred low-carbon heating option, by reducing their running costs. Public appetite for heat pumps will increase exponentially should electricity prices lower, becoming less than three times more expensive than gas. This will accelerate the shift to low carbon heating and help deliver net zero targets.

Around 17% of an electricity bill consists of a range of environmental and social levies designed to support the growth of renewables in the UK. Current levies on electricity bills directly and

disproportionately disadvantage fuel poor households, with nearly 6.5 million households in fuel poverty. The ultimate aim should be to transfer these costs in a slow, gradual and fair way onto carbon polluting fuels like gas, but to do so immediately would also have disastrous consequences for rates of fuel poverty.

### **Remove social and environmental tariffs from electricity bills**

The current allocation of policy costs contributes to electricity (an increasingly low-carbon power source) more expensive on a like-for-like basis than natural gas or oil. Shifting costs will directly lower running costs for heat pumps, making them more financially viable for owner-occupiers.

The best way to encourage the uptake of heat pumps while simultaneously combatting fuel poverty is to **remove environmental and social tariffs from electricity bills**. These currently account for 16-17% of overall bills - removing them would bring electricity consistently below three times the price of gas, making heat pumps much more economical.

The revenue could be gathered from elsewhere, by a reduction in subsidy to oil and gas producers, or through a point on the top rate of income tax for higher tax earners at 46p. This would be revenue neutral and only impact high earners. It would produce an equitable tax and those on low incomes or in fuel poverty will benefit most. We believe this is the fairest way to tackle this issue.

Lower electricity prices will help the transition away from gas heating by incentivising the transition to heat pumps and could be one of the biggest drivers for decarbonisation. There is an urgent need to make sure these reforms go ahead and are both thorough and rapid, so we can see electricity prices placed on par with other European countries.

### **FURTHER INFORMATION**

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