1 Saving households money by accelerating the move away from expensive fossil fuels

Some of the most expensive policies in the last parliament were to support consumers with the high costs of fossil fuels, such as the Energy Price Guarantee and fuel duty cuts. Even when sourced domestically, the price of fossil fuels is inherently volatile, as they are linked to decisions made by autocratic regimes which control the world's largest reserves of oil and gas. The Office for Budget Responsibility estimates another gas price spike could add 13% of GDP to our national debt, if we maintain our current dependence on gas.[6] Only by accelerating the transition away from fossil fuels in the power, transport, and heating sectors can we deliver lower, more stable bills for consumers and greater energy security in this parliament, as well as make progress on tackling climate change. And only through market mechanisms, which incentivise private investment through price signals and encourage competition, can we deliver this transition at the lowest overall cost to the consumer and the economy.

HIGHLIGHTING THE POSITIVE CONSERVATIVE RECORD

The reduction in benefit in kind company car tax rates has played a key role in the rapid growth of new EV sales which now comprise over 17% of the new car market in the UK, with the majority coming from fleets.[7] The Zero Emission Vehicle Mandate, a market mechanism with a system of tradable credits, will also drive EV uptake in the years ahead.

CELEBRATING CEN CAMPAIGN WINS

VAT on energy efficiency measures and solar panels was eliminated in 2022 and the proposed hydrogen levy on electricity bills was scrapped during the passage of the Energy Act.

Bring down the cost of electricity for households through a package of pro-market reforms to move away from gas, expand the supply of clean electricity infrastructure, and foster innovation, ensuring consumers benefit from the UK's world-leading rollout of renewable power.

- **Move some green levies off electricity bills:** the ratio of electricity to gas prices is 4:1 in the UK, compared to a European average of 3:1.[8] This is in part because the vast majority of environmental and social levies are on electricity bills rather than gas bills. Rebalancing some of these levies from electricity to gas bills will help reduce this ratio. This will make electricity relatively less expensive compared to gas and ensure the running costs of a heat pump are lower than those of a gas boiler, as well as delivering savings for electric-only customers and encouraging the electrification of heating. If some levies are moved off electricity bills into general taxes at the same time, households with gas boilers will not see their dual fuel bills rise as a result of this rebalancing. There would be an additional cost to the exchequer from this measure of between £450 and £550 million per year.[9] However, these costs will start falling later in the 2020s as the early renewables subsidy contracts end, although the exchequer liability will rise to compensate remaining gas customers as more households switch to electric. For the average electric-only household with a heat pump, this could save up to £250 per year from household bills.[10]
- **Enable smart energy tariffs:** implementing 'half-hourly settlement' as planned for 2025 would enable suppliers to reflect the true cost of power generation at different times of the day in the prices they charge consumers. Alongside the completion of

the smart meter rollout and the adoption of smart appliances, this would enable energy suppliers to offer innovative, cheaper tariffs to customers for clean technologies, helping them do their washing or charge their EV for less money during periods of excess power supply if they choose. It would also optimise our energy system which is increasingly dominated by variable renewable generation and unlock greater use of demand-side response flexibility schemes, which are crucial for balancing the grid and lowering emissions and overall energy system costs. Ofgem estimates this could generate up to £4.5 billion of net benefits for consumers by 2045.[11] It is important this market-friendly reform is accompanied by targeted price protections for vulnerable customers, so lower income families are not priced out of consuming energy at peak times.

- **Double renewable energy capacity:** to get on track to decarbonise electricity by 2035, renewable energy capacity needs to roughly double by 2030.[12] Homegrown renewables will be the backbone of our future power system, lowering consumer bills when renewables' strike prices are lower than wholesale power prices, and protecting consumers from volatile international fossil fuel markets. The Contracts for Difference scheme has been hugely successful in attracting private investment, lowering financing costs, and encouraging competition between developers, and should be extended into this parliament and beyond. Annual auctions are vital for delivering a clean power system and for improving energy security at the lowest cost to the consumer, and should be given enough budget in this parliament to deliver the doubling of installed capacity. Incremental, market-based reform of the scheme to remove distortions and expose generators to more revenue risk should continue to be developed, in order to reduce curtailment

payments and incentivise more private investment in storage, without pushing up financing costs.

- **Reduce curtailment costs through building more grid infrastructure:** many clean energy projects are held back by long waiting times for grid connections, delaying cheap clean power from coming online and stabilising energy bills. Furthermore, the lack of grid infrastructure, especially between Scotland and England, is pushing up the bill for constraint payments for wind farms, which are paid to switch off during times of high wind and low demand. A report estimated this could cost up to £3.5 billion by 2030 unless tackled, equivalent to £200 extra per household bill.[13] To tackle this growing cost and save consumers money, the plans to accelerate new transmission infrastructure, which were first set out in the Winser Review and endorsed by the last government in the 2023 Autumn Statement, should be delivered as soon as possible.[14] New transmission lines between Scotland and England in particular should be prioritised, with new cables estimated to pay back the investment within two years in savings from curtailment payments.[15] Powers in the Energy Act to open up onshore transmission projects to competition should also be used, to speed up the grid rollout, encourage innovation, and lower prices. In addition, to enable more clean infrastructure to connect faster, Ofgem should be directed to allow distribution networks to invest in local grid upgrades ahead of projected demand.[16]

Cut the cost of switching to an electric car, with tax incentives to make it more attractive for motorists to move away from petrol or diesel cars and helping to ease cost of living pressures, while tackling air pollution and climate change.

- **Reduce VAT for on-street EV charging:** to improve fairness in the transition to EVs and increase uptake through lower taxes, the VAT rate for EV charge points should be equalised at 5%. This would ensure the public charge point VAT rate matches the rate paid by households with a driveway. It is estimated that 30% of households do not have access to off-street parking.[17] As a result, they could be paying up to £227 more per year to charge their vehicle.[18] To ensure charge point operators pass on the VAT reduction to motorists, an EV equivalent to the 'pumpwatch' scheme should be established, where operators have to publish their charging rates in a league table for drivers to compare prices. By the mid-2030s, this VAT equalisation could cost up to £1.1bn, so the lost revenue should be made up by the eventual fuel tax replacement for EVs.[19]
- **Maintain the lower company car tax rate for EVs:** the lower benefit-in-kind tax rate has been one of the main drivers of the UK's EV transition so far. The tax break also explains why fleet purchases have come to dominate new car sales, making up nearly 64% of the market in 2024 to date.[20] These fleet vehicles feed into the second-hand market, helping to make EV ownership more affordable for the 80% of drivers who buy used cars. The lower rate should be maintained for the duration of the next parliament. Standardised battery health certificates should also be a requirement for the sale of second-hand EVs, to build consumer confidence in battery longevity and keep insurance premiums down.
- **Defend the free trade in EVs:** the upfront costs of EVs are falling but are still more expensive than a petrol or diesel car on average, despite lower overall costs of ownership. To boost EV uptake, they need to be cheap and convenient with more

budget options for drivers. The EU's 38% tariff on imported Chinese EVs threatens to push up the price of less expensive models and deter lower-income households from purchasing them. As conservatives we should defend free trade as a way to drive competition, increase efficiencies, and lower costs for businesses and consumers. Of course, free trade only succeeds where genuine comparative advantages are exploited, so the government should be ready to act where illegal and exploitative practices undermine this. To tackle concerns about the provenance and sustainability of imported EVs, a 'global battery passport' could be adopted to increase transparency across battery supply chains.[21] Under the UK-EU Trade and Cooperation Agreement (TCA), new 'rules of origin' requirements from 2027 will place a 10% tariff on EVs where 55% of their components were produced outside the trading bloc. The three-year postponement of these rules is estimated to save manufacturers and consumers £4.3 billion.[22] At the review of the TCA in 2026, the UK should seek to permanently suspend these onerously high rules of origin requirements to maintain zero tariffs on EVs, whilst continuing to invest in our domestic battery manufacturing capacity.

Upgrade the energy efficiency of millions of extra properties across the UK through a mixture of tax incentives, private finance mechanisms, and simpler government schemes, to make heating cheaper, tackle energy waste, reduce reliance on imported gas, and lower emissions from homes.

- **Create new energy efficiency tax incentives:** we need new incentives to encourage energy efficiency improvements in the owner occupier and private rented sectors. Research suggests that households in an average property with an EPC rating of D paid £235 per year more than band C properties, showing the potential of energy efficiency to cut people's bills and ease the cost of living.[23] Tax incentives are voluntary for households, go with the grain of consumer behaviour, involve less administration than complex government grant schemes, and should be combined with innovative green lending products to leverage private capital for home upgrades. These incentives could include creating a stamp duty rebate for homes that are retrofitted within two years of purchase, creating an employee benefit scheme for home energy efficiency improvements, and allowing landlords to deduct the costs of energy efficiency improvements from their tax liability. Stamp duty reform could be designed to be revenue neutral to Treasury. To target these tax cuts more effectively, the system of Energy Performance Certificates (EPCs) should be reformed to measure energy efficiency as opposed to cost.

- **Unlock more green finance for home upgrades:** to upgrade our homes and ensure they waste less energy, we need to substantially increase investment in home energy retrofits in this parliament. It would not be fiscally responsible for the majority of this investment to be provided by the public purse, which is why novel private finance mechanisms, alongside tax incentives to encourage demand, are needed. Firstly, consumer credit legislation should be amended to enable property-linked finance for energy efficiency improvements. Currently, some households are put off from investing in upgrades due to long payback periods of the measures. Enabling homeowners

to tie their energy efficiency loan repayments to properties rather than themselves will encourage more homeowners to finance improvements.[24] A further change to the legislation could be to remove the liability of lenders for actions of third parties, such as installers, which currently holds back some lenders offering green loans. In addition, households should be allowed to add an extra storey to their homes, without seeking planning permission, provided it is in keeping with the original architectural style of the building and that they improve the energy efficiency levels of the whole property.[25]

- **Liberalise the retail energy market:** innovation in the retail market to deliver net zero more affordably and conveniently is being stymied by excessive red tape. Ditching the requirement for a supplier licence for heating loads, for example, would enable distinct heat pump tariff offers.[26] Removing some of these regulations in the retail market would unlock more competition between suppliers, open up the market for new innovations that cannot meet current licensing conditions, and enable more 'energy as a service' tariffs.

- **Cut red tape in energy efficiency and clean heating schemes:** government energy efficiency grant schemes have not delivered as many home improvements as expected. The Energy Company Obligation scheme is behind schedule with only 8% of the anticipated 450,000 energy efficiency upgrades taking place in the first year of the four year scheme.[27] This delay is predominantly due to complexities in identifying households that can meet the minimum uplift requirements of the scheme. Relaxing the targeting requirements for the Energy Company Obligation scheme and ending the competitive bidding element of the public sector decarbonisation funding will help free

up more resources for energy efficiency measures instead of overheads. Similarly, broadening the definition of 'energy saving material' covered by the VAT exemption to include other forms of zero-carbon heating, such as electric heat batteries, would enable greater consumer choice and technological innovation for decarbonising home heating. A more technology-neutral approach to the Clean Heat Market Mechanism should also be developed in this parliament, to lower costs.