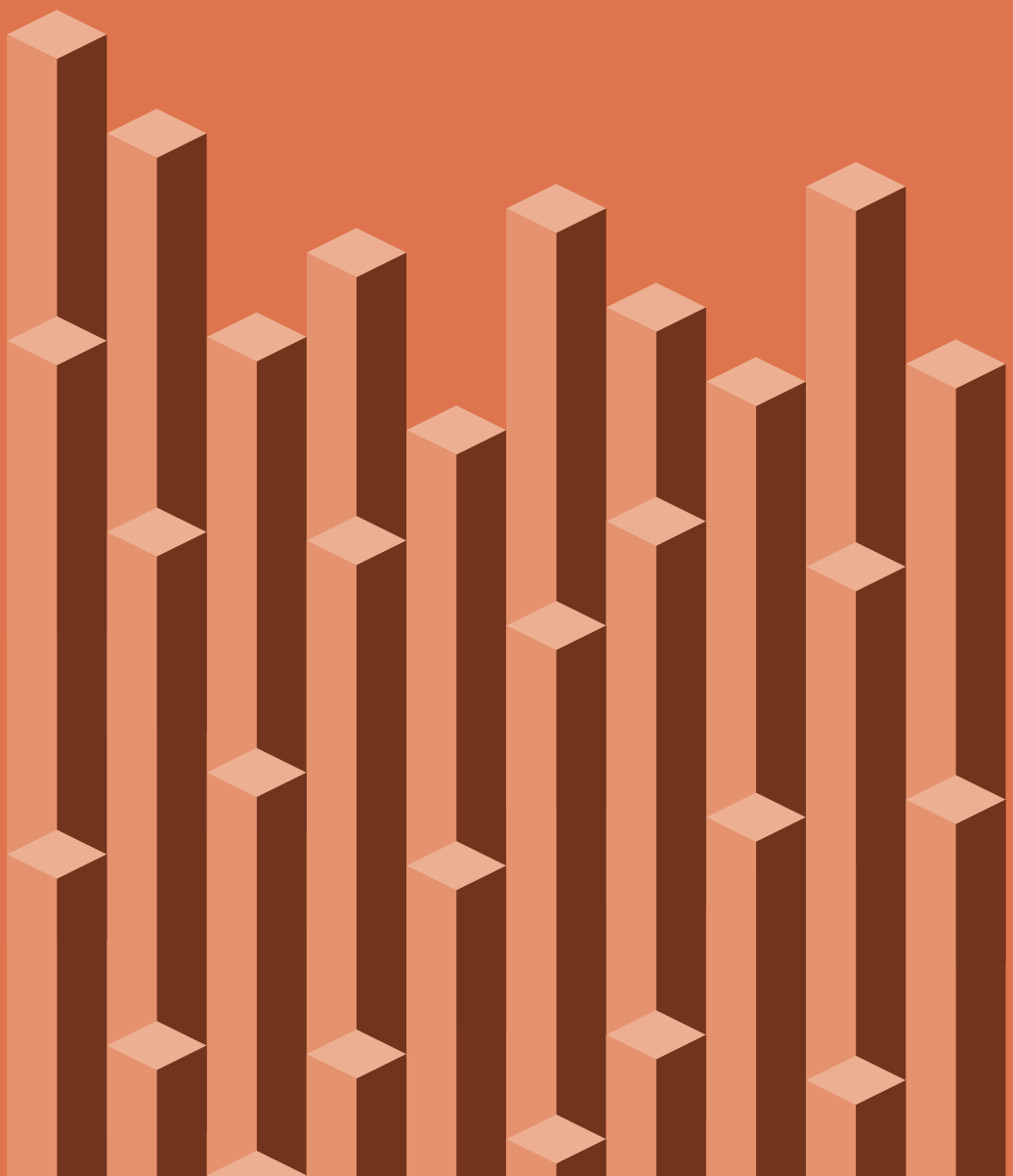
MAKE uk
The Manufacturers' Organisation

TACKLING ELECTRICITY PRICES FOR MANUFACTURERS



Introduction

An ambitious and effective industrial strategy is essential to ensuring the UK remains competitive, secure, and economically productive in the coming years. Manufacturing must be at the heart of this strategy. It creates jobs across the country, supports economic growth, drives innovation and productivity, and is vital to energy security and the transition to net zero.

For too long, the UK has grappled with the absence of a clear and unifying direction across its industries, leading to challenges in achieving industrial success. An industrial strategy, one that is underpinned by a strong vision and targeted policy interventions, has the potential to transform the UK's economic landscape for decades to come.

Manufacturing must be at the heart of this strategy. It creates jobs across the country, supports economic growth, drives innovation and productivity, and is vital to energy security and the transition to net zero.

The government must place industrial energy costs at the heart of this strategy allowing manufacturing to position itself as a key enabler for growth within the industrial strategy. If we do not address the issue of high industrial energy costs in the UK as a priority, we risk the security of the country. We will fail to attract investment in the manufacturing sector and will rapidly enter a phase of renewed de-industrialisation.

Tackling electricity prices for industry is one of the only ways to meet Government's overriding objective of delivering economic growth. This involves supporting industrial green growth via state-led reform and using industrial strategy as a way of driving change. Providing long-term policy solutions will give the certainty to encourage investment in the very sectors the UK needs to scale.

This paper recommends a package of deliverable, sensible, and popular policies to tackle two parts of electricity bills. First, removal of regressive policy levies – taxes – from electricity bills. And second, the introduction of a demand-side Contracts for Difference (CfD) mechanism, modelled on the existing CfD framework but adapted to the needs of industrial users. This package both brings the costs down and protects manufacturers from price spikes. These must be considered as a package to address the fundamental issues and limit exposure to price shocks creating a sustainable future for industry.

Cost of energy

The UK consistently has some of the highest electricity prices in Europe for industry, with prices 46% above the International Energy Agency member countries' median.[1] Despite the introduction of policies like the British Industrial Supercharger (BIS), UK manufactures still face damaging price disparity. Even accounting for the BIS, the average price faced by UK steelmakers for 2024/25 is £66/MWh compared to the estimated German prices of £50/MWh and French prices of £43/MWh.

The cost of energy has remained a primary concern for UK manufacturers with over half of our membership classifying it as their biggest challenge over the coming years. The escalating burden of energy prices is playing a determining role on companies' profitability particularly when coupled with a challenging business environment characterised by heightened capital costs and inconsistent demand.[2]

Businesses can only deliver growth if the government takes a serious and holistic approach to tackling high electricity prices for manufacturers.

[1] https://www.gov.uk/government/statistical-data-sets/international-industrial-energy-prices
[2] Make UK, Executive-survey-2025.pdf,' 51% of members expect cost of energy to be their biggest challenge'

Recommendations

The only way to bring down electricity bills for manufacturers for good is to first tackle the fundamental components. And second, limit exposure to high price shocks. Tackling the second component without the first would be a sticking plaster. It would provide limited relief and still leave the UK at a competitive disadvantage compared to European counterparts.

This paper recommends a package of deliverable, sensible, and popular policies to tackle two parts of electricity bills. This package both brings the costs down and protects manufacturers from price spikes.

Make UK recommends:

– **Removing regressive policy levies from electricity bills and committing to rule out further levies:** This should include removing the costs of the Renewables Obligation, Feed-in Tariffs, Contracts for Difference, Capacity Market, and Climate Change Levy. This is the only way to bring down electricity bills for manufacturers for good. Make UK and Flint Global analysis indicates that this could save manufacturers up to 15% of their electricity bills. It would also deliver measurable economic growth. Every £10 reduction per MWh in energy bills across manufacturing boosts the economy by £800 million (0.03%) a year if sustained over the medium term (with an associated direct fiscal cost of £750 million a year).

– **Introducing a targeted and complementary policy for wholesale costs through the creation of a demand-side Contracts for Difference (CfD) mechanism:** A one-year, demand-side Contract for Difference (CfD) tailored specifically to the needs of UK manufacturers. To restore cost competitiveness with EU peers this should have a strike price set at £56/MWh. This ensures a balanced mechanism and a degree of risk-sharing between parties. It would equate to a 24% discount compared to the OBR's forecast wholesale electricity price, which translates into a 10% reduction in retail prices paid by manufacturers. If lower energy prices were sustained, this would generate a medium-term boost to GDP of around 0.05% (equivalent to around £1.4 billion a year) thanks to a 2.7% reduction in whole economy electricity prices (with an associated proportionate fiscal cost of £1.1 billion per year).

The impact of this package would be GDP-wide. Every £10 reduction per MWh in energy bills across manufacturing boosts the economy by £800 million (0.03%) a year if sustained over the medium term. Every £10/MWh bill reduction would bring greater tax revenue too, of around £300 million a year.

Each of these policies draws on precedent or existing mechanisms to deliver, would be efficient for government to implement and are effective ways of delivering for manufacturing.

"The only way to bring down manufacturers' electricity bills for good is by tackling the fundamental components & limiting exposure to high price shocks."

Policy analysis

REMOVING POLICY LEVIES FROM ELECTRICITY BILLS

One of the major drivers of high electricity prices for UK manufacturers compared to European counterparts is the UK's decision to place most of its electricity policy levies – taxes – directly onto electricity bills. This includes the Renewables Obligation (RO), Feed-in Tariffs (FiT), Capacity Market, Climate Change Levy (CCL), and Contracts for Difference (CfD). This has increased prices for UK manufacturers, creating a significant disadvantage compared to international competitors. While these levies were essential to the growth of clean electricity, they now hinder decarbonisation and growth in the UK. We would recommend two parts to this proposal:

Part 1: Removing all policy levies from electricity bills

The government must now address this by removing all policy levies from manufacturers' electricity bills. This approach would immediately reduce electricity prices. It would provide UK manufacturers with a more level playing field with international competitors in countries like Germany, which have already shifted green levies off industrial energy bills.

Removing policy levies is the only way to reduce prices for manufacturing customers for good. It would improve industrial competitiveness and properly align incentives to accelerate decarbonisation. Critically it would protect jobs – and predominantly regional jobs – here in the UK by making electrification more economically viable.

The existence of British Industry Supercharger (BIS) does not eliminate the need for this policy. Not only is most of the manufacturing sector still exposed to these high costs. Further, as the costs of the BIS are met by other electricity bill payers, ineligible manufacturers are facing an even greater share of policy costs, to subsidise eligible energy-intensive industries. Further exacerbating the problem.

Part 2: Ruling out further levies

In addition to removing policy levies, Government must now also make a commitment to rule out adding any further levies to electricity bills. These levies include but are not limited to the cap and floor mechanism for long duration electricity storage, power CCS dispatchable power agreement and the nuclear regulated asset base for Sizewell C.

To deliver growth, manufacturers and investors need the certainty and stability of knowing that bills will come down, not go up. New policy levies would only exacerbate the issues damaging the competitiveness of UK manufacturing.

How would the policy work?

Removing all policy levies added to electricity bills would include the costs of the RO, FiT, CfD, Capacity Market and the CCL. The mechanism for achieving this may vary depending on the policy. The government must ensure that the costs of these schemes are not borne by manufacturers (e.g. via gas bills) and are paid for in a progressive way that aligns with growth and decarbonisation objectives.

Recognising potential fiscal challenges, there could be a phased approach to removal. There is a particularly strong case for removing the RO, FiT, and CCL first, with manufacturers offered a concrete date for further removals:

- *Renewable Obligation:* This is the biggest policy costs UK manufacturers face. It is a legacy scheme that closed to new capacity in 2017, having been replaced with the more effective and efficient CfD framework. But it continues to impose substantial costs on UK manufacturers' electricity bills. These costs do not drive new investment or change behaviour, and are purely residual, acting as a drag on industrial competitiveness. Removing the RO from manufacturers' electricity bills would provide immediate and significant cost relief without compromising any ongoing policy objective.

- *Feed-in Tariffs:* Like the RO, the FiT scheme is closed but continues to impose material costs. Manufacturers derive no benefit from the FiT scheme, which mostly supports domestic and small commercial rooftop generation.

- *Climate Change Levy on electricity:* The CCL is a tax explicitly designed to encourage energy efficiency and reduce emissions. However, electricity is already subject to carbon pricing under the UK ETS and Carbon Price Support, meaning the CCL double-charges manufacturers for the same carbon. While some industries already receive CCL relief via Climate Change Agreements, many manufacturers do not. A targeted exemption for UK manufacturing, or a re-design of the CCL to remove the charge on electricity, would better align incentives.

What are the impacts?

There is no way to tackle the scale of UK electricity prices for manufacturers without tackling policy levies. Removing all policy levies added to electricity bills (including the costs of the RO, FiT, CfD, Capacity Market and the CCL) could save manufacturers up to 15% of their electricity bills. In particular, this proposal:

- offers direct and targeted energy price reductions to manufacturers;
- targets one of the largest and key components of the energy bill driving a lack of competitiveness with global competitors;
- supports long-term investment planning and competitiveness in energy-intensive sectors;
- removes the uncertainty and risk of additional future levies, again supporting long-term investment;
- is therefore the only way to strengthen our industrial base and send a powerful signal to industry that the UK is serious about competing in the modern global economy in vital strategic industries;
- is almost unanimously supported by energy-intensive industries, manufacturers, and the energy sector; and
- can be implemented quickly, providing significant impacts and kickstarting growth immediately.

This policy would also deliver measurable economic growth. Every £10 reduction per MWh in energy bills across manufacturing boosts the economy by £800 million (0.03%) a year if sustained over the medium term (with an associated direct fiscal cost of £750 million a year)

By adopting this policy, Government will be indicating a serious and ambitious response to the long-standing competitiveness challenges manufacturing has faced delivering an efficient, popular and effective solution for industry unleashing their full potential.

EXPLORING A NEW MECHANISM FOR POLICY LEVIES

There are alternative mechanisms for removing policy levies that could be explored to effectively remove the current imbalance in how energy levies are distributed across electricity and gas. Under the existing system, electricity bears the overwhelming share of policy levies despite being central to the UK's decarbonisation strategy. This creates clear disincentives for electrification technologies such as heat pumps, battery storage, and low carbon industrial processes, undermining net zero ambitions and penalising clean growth.

Potential proposal

Recognising potential political challenges to the full removal of policy levies, a more balanced mechanism to manage the removal of policy levies would be the introduction of a 'Levy Control Framework'. This would restructure the way policy costs are recovered across gas and electricity, applying differentiated rates that reflect relative carbon intensity and efficiency, without increasing Exchequer spending.

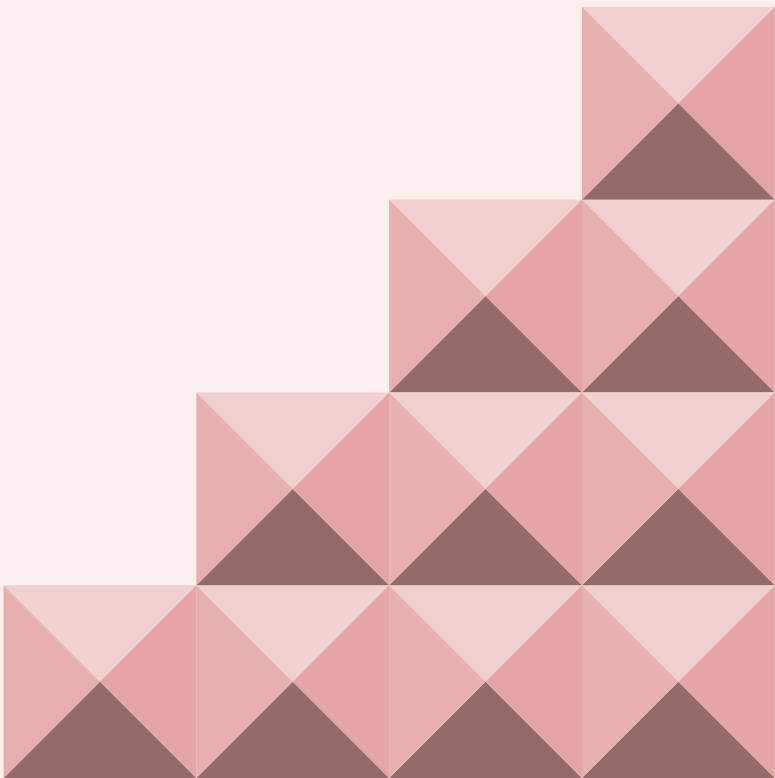
How does this policy work?

1. Forecasting: HMT would publish a forecast of the total amount of revenue required to fund all energy bill policy schemes for the following five years.
2. Dual-rate levies: HMT would set two different kilowatt hour rates on gas and electricity (providing a rebalancing ratio), to collect funds for policy schemes at a rate that balances priorities on electrification and the cost of gas bills.
3. Revenue collection: Suppliers would continue to recoup the unit rates from consumer bills, paying revenues to the Treasury, which would act as a guarantor for revenue certainty and adjust rates for under- and overpayments.

Potential impact

This approach would iteratively reduce the overall level of policy costs. It would also redistribute them more fairly – correcting the structural distortion that penalises electricity over gas. It could offer a more transparent, predictable framework for levy collection, enhancing investor confidence, and laying foundations for future reform, particularly ahead of zonal pricing implementation. However, its impact on industrial competitiveness is likely to be partial and dependent on design. Because this framework retains policy levies on bills, it may still fall short of unlocking the scale of investment and cost relief needed to reverse declining industrial margins or deliver large-scale electrification in energy-intensive sectors.

We remain of the opinion that removal of policy costs from electricity bills remains the most direct and impactful way to improve industrial competitiveness. Any alternative mechanism of this nature would only be considered following a detailed consultation period that confirm comparable benefits could be delivered.



TWO-WAY DEMAND-SIDE CONTRACT FOR DIFFERENCE

Removing policy levies is the most impactful route to restoring UK industrial competitiveness and would deliver the strongest signal of long-term commitment to manufacturing.

However, it does not tackle all parts of the electricity bill. It also does not protect manufacturers from price spikes. Manufacturers in the UK were significantly exposed to price spikes following Russia's illegal invasion of Ukraine.

In that context, Government should introduce a targeted and complementary policy for wholesale costs: a one-year, demand-side Contract for Difference (CfD) tailored specifically to the needs of UK manufacturers. This mechanism would offer immediate and repeated price certainty at a level that restores competitiveness with European counterparts, helping to stabilise costs for UK manufacturers.

How would the policy work?

The government would agree a fixed electricity price with manufacturers (known as the strike price). If the GB wholesale price is above the strike price, the government would pay manufacturers and subsidise their energy costs. If the wholesale price is below this strike price, manufacturers pay the difference back to the government. This ensures a balanced mechanism and a degree of risk-sharing between parties.

The key variables are the strike price and the length and capacity of the CfD framework:

- *Strike price: £56/MWh.*
  As a starting point, we recommend that the strike price should be set at £56/MWh, a 24% discount on the OBR's forecast for wholesale electricity prices. We believe that this would restore cost competitiveness with EU peers and anchor investment confidence.

- *Length: 1-year opt-in model.*
  To reflect how energy-intensive manufacturers procure electricity, the CfD should run on a one-year opt-in model. Manufacturers would commit to a fixed volume for a single year, with pricing updated annually and participation optional each time. This balances certainty with flexibility and avoids the risks of being locked into above-market prices.

What are the impacts?

A clear, targeted intervention to reduce and stabilise wholesale electricity prices for manufacturers will strengthen our industrial base and send a powerful signal to industry that the UK is serious about competing in the modern global economy in vital strategic industries. This policy mechanism:

- offers direct and targeted energy price reductions and certainty to manufacturers;
- mitigates the risks of energy price shocks arising from geopolitical instability (e.g. the energy crisis after the Russian invasion of Ukraine);
- targets the largest element of the energy bill (the wholesale cost);
- supports long-term investment planning and competitiveness in energy-intensive sectors;
- is well understood, offering a tried-and-tested contractual framework that could be adapted with relatively low administrative burden; and
- considered a reliable mechanism within Whitehall.

This policy also delivers growth. Make UK and Flint Global have analysed the potential quantitative impacts of these proposals. This uses the recommended strike price of £56/MWh, a 24% discount compared to the OBR's forecast wholesale electricity price, which translates into a 10% reduction in retail prices paid by manufacturers. To estimate the GDP impact, we use the OBR's modelling approach to how a sustained change in energy prices feeds through to the wider economy, affecting medium-term potential GDP.

The results show:

- A CfD would cost £1.1 billion per year to provide this value of support in aggregate across UK manufacturing electricity demand.

- If lower energy prices were sustained, this would generate a medium-term boost to GDP of around 0.05% (equivalent to around £1.4 billion per year) thanks to a 2.7% reduction in whole economy retail electricity prices.

Despite the benefits of this policy, we do not think it goes far enough on its own to address the immediate concerns of industry as only addressing price spikes will not deliver the long-term solution that manufacturers require.

Conclusion

In a competitive global environment, the government must recognise the scale of growth that manufacturing can produce and leverage the industrial strategy to support the growth of UK manufacturing across the regions. An ambitious approach to tackling industrial energy costs which addresses the fundamentals behind high costs will ensure that opportunities are taken by manufacturers, and we can restore global competitiveness.

By creating the foundations for growth, manufacturing can lay the groundwork for the net zero transition allowing the sector to take advantage of the readily available electric technologies. This will see the government delivering on the key objective of the governments of delivering growth whilst addressing its other stated objective to contribute towards net zero.

We recommend that the government takes on the recommendations in this report immediately and starts delivering on the aims of the industrial strategy.

About

Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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