OFFICIAL REPORT
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Net Zero, Energy and Transport Committee

Wednesday 11 May 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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NET ZERO, ENERGY AND TRANSPORT COMMITTEE
16th Meeting 2022, Session 6

CONVENER

*Dean Lockhart (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Fiona Hyslop (Linlithgow) (SNP)

COMMITTEE MEMBERS

Natalie Don (Renfrewshire North and West) (SNP)
*Jackie Dunbar (Aberdeen Donside) (SNP)
*Liam Kerr (North East Scotland) (Con)
*Monica Lennon (Central Scotland) (Lab)
*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

COMMITTEE SUBSTITUTES

Collette Stevenson (East Kilbride) (SNP)
Mercedes Villalba (North East Scotland) (Lab)
Brian Whittle (South Scotland) (Con)

THE FOLLOWING ALSO PARTICIPATED:

Rt Hon Greg Hands MP (Minister for Energy, Clean Growth and Climate Change)
Elena Whitham (Carrick, Cumnock and Doon Valley) (SNP) (Committee Substitute)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

Committee Room 3

Scottish Parliament

Net Zero, Energy and Transport Committee

Wednesday 11 May 2022

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Dean Lockhart): Good morning and welcome to the 16th meeting in 2022 of the Net Zero, Energy and Transport Committee, which we are conducting in a hybrid format. This meeting is in addition to our usual Tuesday morning meeting. We have received apologies from Natalie Don and I am pleased to welcome Elena Whitham as her substitute.

Under agenda item 1, do we agree to take item 3, which is consideration of the evidence heard this morning, in private?

Members *indicated agreement.*

Energy Price Rises

09:01

The Convener: Our main agenda item today is an evidence session in our inquiry that is looking at the significant increase in energy prices, what is driving it, what impact it is having and what can be done to alleviate the worst impacts. Yesterday, we heard from the Office of Gas and Electricity Markets. Today, we will hear from the Rt Hon Greg Hands MP, Minister of State at the Department for Business, Energy and Industrial Strategy, who is joining us remotely.

Good morning, minister, and welcome to the committee.

Rt Hon Greg Hands MP (Minister for Energy, Clean Growth and Climate Change): Good morning, Mr Lockhart. I hope that you can hear me fine.

The Convener: Yes—you are coming through loud and clear. Thank you very much for accepting our invitation and giving of your time to give evidence. We have allocated an hour for the session. I believe that you have an opening statement.

Greg Hands: Yes. Thank you, Mr Lockhart. I apologise for not being able to be with you in person. Here at Westminster, we are debating yesterday's Queen's speech. I am always pleased to be in front of the Scottish Parliament.

The rise in energy prices has been driven by the global factors that have increased the price of wholesale gas. The United Kingdom Government absolutely gets that high energy prices are a key concern, and that is why we have taken strong action in response.

However, that has not had an impact on our energy security. Our new British energy security strategy puts renewed emphasis on supporting our North Sea oil and gas sector and making the transition to low-carbon alternatives, which will protect 100,000 jobs in the sector, particularly in Scotland.

In February, the Chancellor of the Exchequer announced a £9.1 billion package of support to help households with rising energy bills. It includes the energy bills support scheme, which will provide a £200 bill reduction to domestic electricity customers' bills from October 2022. The scheme will apply across England, Scotland and Wales. Households in Scotland will also benefit from the additional £296 million in Barnett consequentials for support for the cost of living, including help for high energy costs, on top of the record £41 billion annual settlement for Scotland—the largest since devolution—that was announced at the spending review.

Over the longer term, as is set out in the British energy security strategy, the UK Government is focused on replacements for fossil fuels that are reliable and do not expose us to the volatility of international commodity markets. We already have Europe's largest capacity in offshore wind and we are going to quadruple that over the next decade. We also have a big increase in our nuclear ambition, with a rise to 24GW by 2050, which will represent 25 per cent of our electricity output.

All of that represents a major step towards delivering the Government's increased ambition on renewables and low-carbon generation as well as energy security. We will continue to monitor the situation with high energy costs, particularly for the consumer and businesses, and consider how best to address the issue.

The Convener: Thank you for those opening remarks, minister. My first question concerns the energy supply companies that have left the market over the past 18 months. As you know, around 30 suppliers have done so. The supplier of last resort process has added £2.8 billion to consumer bills, and that is, as you know, on top of the increase in wholesale energy costs. The Ofgem representatives who were at the committee yesterday indicated that that is the only mechanism that is available to them for the recovery of costs.

What other tools has the UK Government considered as possibly being available in that context? What other powers could Ofgem be given to mitigate the consumer costs of companies leaving the market?

Greg Hands: That is a good question. I am glad that Ofgem appeared before the committee to answer it, because the supplier of last resort process is principally a matter for Ofgem.

The SOLR process has worked well overall. A lot of customers have transferred successfully. I do not think that anyone has experienced disruption in supply. Some 2.5 million customers crossed to 28 SOLRs in what has been a good, seamless process. As for reviewing how such costs might be met in the future, at present we think that the way that the SOLR process has socialised costs across customers is the best way. However, I will continue to speak to Ofgem to see whether there might be better ways in the future.

As I said, the process is working well. There is still good competition. There are around 30 energy suppliers in the market, which represents a good, healthy level of competition even after a number of other companies have left, particularly in the final quarter of last year.

The Convener: In other evidence that the committee has heard, there has been speculation that the wholesale price of gas will remain high for the foreseeable future for the reasons that you mentioned in your opening remarks, such as global issues that are outwith our control. What action will the UK Government take should the wholesale price remain high beyond 2023? In the Queen's speech yesterday, it was confirmed that the price cap will be extended beyond that date. Will you elaborate on other measures that the UK Government might consider should wholesale gas prices remain elevated beyond the next 12 or 18 months?

Greg Hands: As you rightly point out, in the Queen's speech yesterday, we announced the forthcoming energy security bill, which will allow us to extend the existing price cap. The bill will not obligate us to extend it, but it will give us the powers to do so.

As we have seen in recent years, it is difficult to predict energy prices. Typically, the gas price in this country has hovered at around 50p or 60p per therm, and that has been the case for most of the past 25 years. However, the current price is around 180p per therm, which is around three to four times the historical average. It was as high as 700p straight after the Russian invasion of Ukraine, which gives an idea of the current volatility of prices, particularly of gas.

We must watch the market carefully. As you know, the price cap is reset every six months. However, it also lags by two months—for example, the refreshed price cap that will come in next October will be based on prices between February and August this year, and the figure will be calculated by Ofgem. We are about halfway through that period. As it happens, prices hit a recent low yesterday; the spot price was down to as low as 40p per therm. The forward price was up at 185p per therm, which is relatively low by recent standards. Prices therefore remain volatile.

The best answer to your question about how we might deal with matters structurally in the long term if there is an extended period of elevated prices is simply for us to use less gas. That is why, across the UK, we have such an effective programme to move into renewable energy supplies. As I mentioned in my opening remarks, we have the largest installed offshore wind capacity anywhere in Europe. We also have bigger capacities in onshore wind and solar energy. As you will know, in the recent contracts for difference auction, we had a separate pot for tidal energy. Scotland plays an absolutely vital role in delivering all those forms of energy, and its key role in that respect should be acknowledged. Indeed, given my appearance before the Scottish Parliament today, it would be remiss of me not to mention Scotland's crucial role in all our energy sources, including more traditional oil and gas.

In answer to your question about how, structurally, we can reduce dependence, we can do so through renewables and more use of nuclear energy, which will provide the baseload in future and make us less dependent on gas, in particular.

The Convener: Thank you, minister. I will bring in committee members to explore some of those issues. I call Fiona Hyslop, to be followed by Monica Lennon. [*Interruption*.] Actually, I think that Monica will be first.

Monica Lennon (Central Scotland) (Lab): Thank you, convener. That is kind of you.

Good morning, minister, and welcome to the committee. We all listened with interest to the Queen's speech to find out the UK Government's plans, because a couple of weeks ago, the committee was warned by a fuel poverty charity that, unless the UK and Scottish Governments take more action, there will be

"a catastrophic loss of life"—[*Official Report*, *Net Zero, Energy and Transport Committee*, 26 April 2022; c 23.]

this winter. The situation is very serious, but what many of us heard in the Queen's speech was, to say the least, underwhelming. For example, there was no windfall tax on the unique profits of big companies and no suspension of VAT on ordinary people's energy bills.

Are you going to take such issues forward? Is there going to be an emergency budget? With regard to phrases such as "catastrophic loss of life", can you tell us whether the Government has seen any modelling on that? What are your worst fears about this winter?

Greg Hands: Thank you for those questions, Ms Lennon. Let me try to answer them as best I can.

First, the action that was outlined in the Queen's speech builds on action that we have already taken. The package of measures that the UK chancellor announced on 3 February—the £9.1 billion package of action on bills that I mentioned in my opening remarks—is part of an overall £22 billion package this year to help households with the cost of living. We recognise that we cannot provide complete insulation—for want of a better term—from the big rises, and particularly the big rises in energy bills, but it is a very substantial package of measures.

Secondly, not all of those measures have come into effect yet. For example, the energy bills stabilisation measures will not start until October. They are designed to kick in at the beginning of winter, when energy use really starts to rise. It is worth recognising that not all of the measures that we are taking have yet taken effect. Obviously, the council tax measures took effect in England, with Barnett consequentials coming to Scotland, from April.

We will continue to monitor the situation very closely. It is still too early to tell what the price cap from October will look like, but a key consideration will be the actual prices that people pay for energy from October.

On your question about a windfall tax, it is worth bearing in mind that oil and gas companies provide, as you all know, a huge amount of employment—particularly in Scotland, I might add, with around 100,000 jobs. It is very much the belief of the chancellor, who deals with matters of taxation, that a windfall tax would kill off investment in, for example, the North Sea, particularly by companies that use the proceeds to invest increasingly in renewables. Oil and gas companies already pay corporation tax at twice the rate of other companies. Indeed, they have paid around £375 billion in taxation to the Exchequer since North Sea oil and gas came on stream.

We therefore take the view that a windfall tax would likely kill off investment and cost jobs, particularly in Scotland and particularly at a time when we need our gas production. We in the UK benefit from producing gas to meet 50 per cent of our needs, which is a position that a lot of other European countries do not have. We are not dependent on the importation of gas from Russia, for example. Thanks to North Sea gas, we are in a really fortuitous position. We need to ensure that we do not kill off investment, particularly at a time when we are dealing with huge and heightened energy security issues.

To cut VAT on energy would be a very untargeted approach. What we have done is based on a much more targeted approach that makes sure that the most vulnerable benefit from the support that we provide. Examples include the support through council tax for properties in bands A to D, which are at the less wealthy end of the spectrum, the increase in the warm homes discount, and other measures to really get money back into the pockets of the most vulnerable. A VAT cut would disproportionately benefit the wealthier households.

09:15

Monica Lennon: Perhaps the Government needs to listen more closely to what firms are saying. A couple of weeks ago, Shell went on the record saying that it is quite comfortable about a windfall tax and that more can certainly be done.

You talked about killing off investment, but we are hearing from charities, trade unions in Scotland and local volunteers at food banks that the cost of living crisis is killing off people. With respect, we need to hear more about what will be done by both your Government and the Scottish Government, which will be at next week's meeting.

Further afield, you also have responsibility for climate change, and we are looking at longer-term solutions there as well. In your view, should the proposed Jackdaw oilfield go ahead? Is that the kind of investment that you want to support?

Greg Hands: Thank you for raising that. It is difficult for me to comment on a specific consent or a specific field. Jackdaw is being assessed by the offshore petroleum regulator for environment and decommissioning. It is within the Department for Business, Energy and Industrial Strategy, which is my department, but it operates independently. It does an independent environmental assessment. It is difficult for me, as the minister, to give early sight of something that OPRED is examining.

In general, however, we very much welcome increased investment at this time, particularly in gas, to ensure that we have security of supply. I am sure that you agree that it would make absolutely no sense for us to import more oil and gas at the moment. We are making the transition so that we will use significantly less oil and gas—although there will still be a role for oil and gas even after 2050; the Climate Change Committee has agreed that—but for the present the last thing that we want to do is to import more oil and gas in what has become a highly competitive and expensive market, not least if we end up importing more hydrocarbons from Russia. That would be absolutely the worst choice.

That is why we want to make sure that in general—I am not commenting on any specific field—we support our North Sea oil and gas industry. I add that there are a number of jobs attached to that industry—100,000 jobs—and that a huge part of it is in Scotland, with most being in the north-east of Scotland. It is really important that we help the industry to make the transition, and not by shutting it down. Extinction is not a good policy choice; transition is the right policy choice. We need to make sure that those highly skilled jobs that are held by the oil and gas workforce are transferred over time into lower-carbon sectors such as offshore wind and hydrogen production. I know that the north-east of Scotland in particular will be a world leader in all those things, and it already is in offshore wind.

That is why we are making the transition but also making sure that investment goes into oil and gas in the near term. The last thing that I want to do is to import more volatile, expensive hydrocarbons, particularly from countries that are not very friendly to the UK at the moment.

Monica Lennon: Thank you, minister. In the interest of time, I will hand back to the convener, but I note that we are dealing with a cost of living crisis and a climate crisis and it seems that you have a business-as-usual approach.

The Convener: I will bring in Fiona Hyslop next.

Fiona Hyslop (Linlithgow) (SNP): We have a climate crisis, but we also have a cost of living crisis, which is being made worse by energy price increases. I assume that you take responsibility for protecting consumers from the severe energy price increases, which we have heard will increase fuel poverty and have already done so, through the price cap increase. Therefore, there is pressure in the short term to take action.

Bearing in mind the fact that the UK's Office for Budget Responsibility indicated that there was £20 billion headroom in the spring statement, what are you doing to press the Treasury and other departments to provide more immediate support, rather than waiting to see what happens after October to help protect families?

Greg Hands: Fuel poverty is a devolved matter, of course, but to answer your question about what the UK Government is doing, we have already taken substantial measures. As I said, not all those measures have yet taken effect, so—[*Interruption*.]

The Convener: It looks as though we have a slight problem with the minister's connection.

Greg Hands: [*Inaudible*.]—that is designed—

The Convener: Minister, your screen froze for a second. Could you go back a sentence?

Greg Hands: Yes—of course. I apologise, Mr Lockhart. Let me rewind in my head a little bit.

The package of measures that the Chancellor of the Exchequer announced on 3 February was comprehensive: it totalled £9.1 billion of support. We are giving £22 billion of support overall, when you include other measures such as the universal credit taper change and the reduction in fuel duty—which is worth about £5 billion—by 5p on a litre of petrol and diesel. Those are real and practical measures of support for consumers.

It would not be right to say, Ms Hyslop, that we are not taking action; we have taken decisive action. We have also increased the national living wage from £8.91 an hour to £9.50. That will make a real difference. It will put an extra £1,000 a year into the pockets of people who work at the national living wage.

We have already taken decisive action. We do not rule out anything in the future and we continue to talk all the time to the Treasury and other relevant Government departments, including the Department for Work and Pensions, to ensure that support is good. Employment remains strong and robust across the UK. We need to ensure that that continues to be the case.

There has been a comprehensive response so far, but we will continue to consider the situation and consider whether further action would be appropriate and necessary over this year.

Fiona Hyslop: The evidence that we have heard is that the action that has been taken already should be recognised, but rather than waiting to see what happens in the autumn, can measures be introduced now, as opposed to waiting until the winter, when we know that people will absolutely be suffering? That is the message that we have heard from other witnesses and we want to relay that to you.

The other issue is the energy market and how it has—or has not—performed. You seem to be quite optimistic about the state of it. That is not necessarily what we have heard from other witnesses. We heard yesterday from Office of Gas and Electricity Markets, which was clear that there are a number of measures that it would like to take. Your proposed energy security bill seems to be more focused on supply security than on consumer protection. Are you prepared to implement the measures that Ofgem proposes—it must have proposed them to you—to allow it to step in in certain areas and be more severe in ensuring that companies protect individual consumers, and to shift the balance from protecting suppliers to protecting consumers?

Greg Hands: Those are all really good questions. We work closely with Ofgem. It is an independent regulator, but the Secretary of State for Business, Energy and Industrial Strategy and I meet Ofgem pretty often—I would say, on average, once a week—in one context or another, so we have a good dialogue with it.

The energy security bill has not yet been published, but yesterday we announced the measures that will be in it. They include key measures to protect consumers and to give Ofgem a stronger role. I will pick out two or three. First, we have already mentioned the extension of the price cap beyond its current statutory 2023 limit. The second is more competition in onshore electricity networks.

The third area is one that has not been regulated by Ofgem before: heat networks. I forget where you represent, Ms Hyslop. It is Linlithgow—I am just reading it. Anybody who represents a more inner-city area will have quite a few heat networks. I am sure that you have them in your constituency, as well. Those networks typically cover mansion blocks down to housing association blocks, which benefit from heating prices that are, typically, lower because of the economy of scale from the heat network. However, the networks are currently unregulated. We will give Ofgem powers to regulate them so that if people feel that their heat network is overcharging them or is charging them unreasonably, Ofgem can look at that.

In the energy security bill—which is yet to be published, although we have published many of its main measures on www.gov.uk—there will be quite a few practical ways to protect consumers and give Ofgem more muscle when it comes to regulating markets.

Fiona Hyslop: I will pass back to the convener, now. A number of members have questions and I know that you have a tight deadline, minister.

Liam Kerr (North East Scotland) (Con): In your opening statement you said that the rise in energy prices was driven by wholesale gas, among other things. Given the current price spike, should marginal generation technology—predominantly gas—continue to set the price, and is there a case for wholesale restructuring of the energy market? If so, what impact could that have on bills, and how quickly?

Greg Hands: That is a very good question. It makes a point, I think, about the quicker the better.

We cannot create an energy market that is not reflective of global or wholesale energy prices, but we can influence it and try to change our energy supply mix. That is the priority. For example, in the net zero and British energy security strategies, and now in the proposed energy security bill, we have set out how we will increase the move to renewables and ensure that we are less dependent on gas.

We have to look at our security of supply and support the sector. That move will take some time, and it is already taking place. We already have Europe’s largest installed offshore wind capacity, but we need to go further, which is why, over the course of this decade, we will quadruple our offshore wind power.

We need to make that move, and we are moving decisively back into nuclear to ensure that we have a base load when the wind is not blowing and the sun is not shining. Nuclear will also provide a big part of our energy mix. In the energy security strategy, we targeted nuclear to provide 25 per cent of our generation by 2050.

If I might indulge myself for a moment, Mr Kerr, I would like to say to the Scottish minister that it would be helpful if the Scottish Government were to drop its ideological opposition to nuclear power. Nuclear has a fantastic track record in Scotland. The Hunterston power plant closed just before

Christmas, and was an incredible success story; it generated zero-carbon low-cost electricity for the equivalent of every Scottish home for 32 years, I think. It is a pity to see Scotland not participating in our nuclear renaissance, thanks to the Scottish Government's approach to nuclear.

The best way to reduce the impact of gas prices on wholesale energy prices is to reduce our use of gas. To do that, there will need to be more renewables and more nuclear.

Liam Kerr: On a slightly different side of things, after so many failures of new entrants to the market there has been a consolidation of legacy suppliers. That can reduce competition and consumer choice. In your view, how can the UK Government ensure increased competition and innovation with the effect of ensuring value for money and driving decarbonisation and net zero?

Greg Hands: Again, that is always a question. More than 20 companies have left the market—in particular, in the fourth quarter of last year—but there are still 30 energy suppliers in the market. I think that that provides a robust level of competition in energy supply.

09:30

We also try to ensure good competition when it comes to electricity and energy generation. We put an amount of Government money into contracts for difference auctions, but not every project wins in a CFD auction, so we create competition there between electricity generators, as well.

One of our key priorities is making sure that the market remains strong, robust and competitive. I am satisfied that having 30 energy supply companies in the market still provides a high level of competition. We would like to see more competition in some other parts of the market, as well.

With regard to innovation, I think that we have a really good innovative market. There are some quite forward-looking and tech-savvy companies. There is diversity in the services that energy suppliers are able or willing to offer their customers. For example, there are companies that take on a large number of people's bills beyond energy, and there are large numbers of renewables-only energy suppliers. There are also energy suppliers that have a more niche geography or a niche thing to sell. I think that there is good diversity in our energy suppliers, and they are also very innovative.

We quite often see energy companies react well to Government announcements. I will give you a good example about heat pumps. It is not realistic for the Government to come along and install a heat pump for everybody. However, energy suppliers have reacted really well to the £450 million boiler transformation fund that we launched in the autumn to pump prime the heat pump market. The companies have said that they will, thanks to the support that they have been given by the UK Government, be able to drive up demand and, therefore, bring down costs in the heat pump market. For example, Octopus Energy said that, thanks to the UK Government announcement in the autumn, it thinks that the cost of a heat pump, including the installation and the life of the unit, will become comparable to that of a gas boiler as early as this year.

The Government can encourage and drive innovation. In my view, we have a really innovative sector, particularly in the energy suppliers competitive sector. However, we need to keep an eye on it, clearly, because companies have left that market and we need to make sure that the companies that remain provide a competitive and innovative market. I believe that they currently do.

Liam Kerr: I am very grateful, minister; I have no further questions.

The Convener: We move to questions from Mark Ruskell.

Mark Ruskell (Mid Scotland and Fife) (Green): Good morning, minister. We have had very sobering evidence on the impact on households that are suffering fuel poverty. We are told that, for many, there is no longer a choice between heating and eating; they cannot do either. We have been told that many people on very low incomes are now spending more than half their income on energy alone. You said earlier in the session that you cannot protect or provide complete insulation for people who are in fuel poverty, but do you recognise that the package of measures that you announced several months ago will, when we get to the autumn, probably not be enough to support those people, who will be in spiralling debt and will face even greater levels of fuel poverty? You will have to think again about measures that you can ramp up in order to protect those people.

One proposal that has been brought to the committee from Scottish Power was the establishment of a deficit fund, which, rather than giving people a £200 loan on their electricity bill, would give them a £1,000 grant to enable them to get out of fuel poverty and wipe out their debts. Are you considering such initiatives? What might need to be done in the autumn if people are continuing to spiral into fuel poverty and debt?

Greg Hands: The first thing that I will say is that fuel poverty is a devolved matter, so I assume that, now that your party is—if I am not mistaken—in government, you will be making the same point to your Scottish Green ministers, who will have responsibility in this space, too.

As for what the UK Government is doing, it is worth pointing out that there is not just the £9.1 billion package of measures that the Chancellor of the Exchequer announced on 3 February. We have a lot of existing schemes in place, including the warm home discount scheme, which works in a similar way to what Keith Anderson proposed earlier this week, though perhaps not to the same extent. Effectively—[*Interruption*.]

The Convener: It looks as if we are having another slight technical issue. [*Interruption*.] Minister, I am sorry—your screen froze for a second. Could you backtrack 10 or 15 seconds?

Greg Hands: My apologies, Mr Lockhart. I have to say that I have not had this problem before.

I was just talking about the proposal that Keith Anderson of Scottish Power was pushing. As someone who is incredibly respected and has been in the market for a long time, he is understandably concerned about the market and consumers. That is absolutely the right approach, and it is shared by the UK Government.

We have extended the warm home discount by increasing the payment to £150 and making it available to 3 million households. You should not forget that we have other schemes in place, such as cold weather payments, to ensure that the elderly, in particular, are supported during spells of cold weather and at times of increased energy need. There are a lot of support mechanisms in place. I have already mentioned the overall measures that the UK Government has taken this year to support consumers, including the rise in the national living wage, the reduction in petrol and diesel tax and so on.

A package of measures is in place, but I am not telling you anything that you do not already know. We watch these things incredibly closely right across the country, and we also have good conversations with the Scottish Government and other devolved Administrations on these matters. We have a watching brief, but we also think that the measures that we have in place at the moment are substantial. As I have said, some of them, such as the price stabilisation mechanism—the £200 discount on energy bills—have not yet taken effect.

It is something that we are keeping a really close eye on, but as far as fuel poverty is concerned, I urge you to have a word with the ministers from your party who are in the Scottish Government.

Mark Ruskell: It would be great if our ministers had full control over energy, including the energy markets, but of course we do not. That responsibility lies with you. What I would like to see is investment across the UK in getting families out of fuel poverty, and it is quite clear that the measures at the moment are not working. Indeed, what we are being told is that families are continuing to spiral into debt.

You talked earlier about ideological opposition to nuclear power. Why do you have an ideological opposition to a windfall tax? After all, the European Union’s plan to reduce reliance on oil and gas favours a windfall tax; Italy has introduced a 25 per cent windfall tax, raising €10 billion as a result; and Spain has introduced such a tax, too. Surely as a short-term emergency measure a windfall tax would help boost the kinds of programmes that you and I know are needed across the UK to get families into a position where they are coming out of fuel poverty—clearly something that would not be resisted by oil and gas majors, which are making billions and billions of pounds. Why is a windfall tax currently off the table? What would have to change in the current energy crisis for you to reconsider introducing it?

Greg Hands: We went into this a little bit earlier with Ms Lennon. However, to be clear, I will just say that the chancellor has been clear that he is not going to follow the Labour Party’s suggestion of a windfall tax. I think, if I am not mistaken, that the proposal is also backed by the Scottish National Party, although its windfall tax might be slightly different—and your windfall tax, too, Mr Ruskell, might be slightly different again.

We have said that oil and gas companies pay corporation tax at twice the rate of other companies. This year, there is already a big increase in the amount of tax that we are taking from those companies. However, we also need those companies to make the investment that will affect jobs in the north-east of Scotland in particular—100,000 jobs overall—and to invest so that we are able to use our own gas resources rather than having to import those. That is incredibly important. It is also worth recognising that a lot of those companies are also big investors in renewable energy; Scotland also plays an enormous role in delivering renewable energy for the whole country.

We therefore do not think that the windfall tax that has been proposed by Labour is the right approach. I am slightly confused about the SNP because, in Westminster, its MPs who represent areas outside of the north-east of Scotland back the tax, and those who represent the north-east of Scotland seem to oppose it, so I am never totally sure whether the SNP in Westminster is for or against a windfall tax. I think that it is in favour of a different windfall tax from the one that Labour has proposed.

A better approach is investment—making sure that those jobs are secure, that our diverse energy mix continues and that the North Sea makes the transition, rather than being closed down, to guarantee those jobs and that skills base—so that we have the types of energy that we need today while transforming to the energy of the future in order to reach net zero by 2050.

In addition, the UK must continue to play its key international role. When we brought the 26th United Nations climate change conference of the parties—COP26—to Glasgow, that was a proud moment for the UK and for Glasgow. There was an incredible feeling around that conference. The Glasgow climate pact was a big success. We need to keep delivering on that with our international partners. Making sure that all those things continue to be delivered on will be a key part of that. We work well with our international partners.

The UK is not an outlier. We would absolutely be an international outlier if we were to close down our own oil and gas resources. Thankfully, we are not doing that, but you might have been suggesting that we should. I say absolutely and categorically that transition, not closing down, is the answer.

Mark Ruskell: It is hard to see how the investments that the oil and gas industry may or may not make in renewables are going to benefit consumers who are in fuel poverty today, spending more than half their income on energy.

I will ask my final question. You do not believe that a windfall tax is the right approach. Presumably, you do not want to take money out of general taxation to invest in support for those who are in fuel poverty. Do you believe that that cost should be put back on to energy consumers—that that is where the money should come from to support those who are most in fuel poverty?

Greg Hands: I have already said that a £9.1 billion package of support this year for energy consumers was announced by the chancellor in February. Overall, we have more than £22 billion this year to support consumers who are under cost of living pressures. Existing measures, such as the warm homes discount, winter fuel payments and cold weather payments, are also in place to support consumers.

I am not denying that consumers are facing difficult times, which is why we are keeping the situation under continual review. All matters of taxation are always kept under review by the Chancellor of the Exchequer and the Treasury, and that is why we announced those measures on 3 February. We would not hesitate to announce further measures. However, we are not introducing any emergency budget. We think that we have taken the right action at the right time. As I have said, some of the measures that have not yet taken effect will do so when consumers most need them, particularly as we go into next winter.

The Convener: Liam Kerr has a very brief supplementary question in that area.

09:45

Liam Kerr: Minister, on the line of questioning that we have just heard, Chris O'Shea, who is the chief executive officer of British Gas, which is owned by Centrica, said today that a windfall tax would hit investment and push up costs in the longer term. Could the windfall tax that is being proposed result in increased costs to consumers?

Greg Hands: That is a good question, Mr Kerr. That is very likely to be the case, depending on which windfall tax you take. Anything that prevents or reduces investment in the energies of today—particularly North Sea gas—or the renewables of today and the future, is likely to have an impact on prices and emissions. It is also worth pointing out that UK continental shelf gas comes with much less emissions than imported liquefied natural gas, so anything that drives down our supply and increases our imports is likely to have a negative impact on emissions.

We have been clear that we need the industry to invest, and we are putting pressure on the industry to invest in the UK. The response to that so far has been good, with recent announcements from BP and Shell on more investment in the UK. It is important that we continue to send that signal to industry. We need it to invest in the UK, and we will provide a supportive regime to make sure that industry makes the transition. The North Sea transition deal, which is the deal that we signed last March with the sector to make the transition, is our bible, and it puts obligations on the sector on things such as platform electrification.

The right way to do that is to work with the sector to make the transition and make sure that the sector invests. In the meantime, the UK Government will make the case for our energy today, while also increasingly making our move to renewables, on which the UK is a world leader. We are a world leader on offshore wind, and do a huge amount of onshore wind, solar and, increasingly, tidal. We are setting the pace on how to roll out renewables.

Jackie Dunbar (Aberdeen Donside) (SNP): There are multiple different potential strategies and options for minimising the impact of the energy crisis and the cost of living crisis. Some that you have mentioned have been put in place and some have been suggested by witnesses in this inquiry. Should energy be subsidised at the point of sale?

Greg Hands: We provide a lot of support for consumers. The energy price cap provides a lot of support for consumers, but this is a competitive market with very high prices due to world events such as the world economy's recovery from Covid and the Russian invasion of Ukraine. That is what is driving prices. Even with our excellent sources of supply, we are not immune from high prices in worldwide wholesale markets.

Jackie Dunbar: I understand that, but in relation to the cost of living crisis, we have heard some hard-hitting stuff and some innovative ideas. Mark Ruskell said earlier that Scottish Power has suggested a deficit fund, where £1,000 is taken off the bills of the hardest-hit people, to be repaid over 10 years. Is that a good suggestion? What would be the practical implications of setting up such a fund to help those who are most in need?

Greg Hands: That is a helpful contribution to the debate. I always listen carefully to what Keith Anderson tells me, because Scottish Power has a key role in this. It reflects elements of schemes that are already in place, such as the energy bill support scheme, which we are consulting on at the moment. The idea is that there is a smoothing of energy prices over a period of time; in this case, £200 would be taken off bills in October, and £40 would be added to bills over the succeeding five years.

We already have schemes that share similarities with what Keith Anderson has proposed. The warms homes discount also has elements that mean that people in the most vulnerable households will get £150 extra, which will effectively be paid for by households that are in the less vulnerable sectors. I think that it works out at about £10 a year.

It is worth bearing in mind the fact that Keith Anderson's proposed scheme would add to the bills in other households. It is effectively a subsidy that will be paid for by other households. There are winners and losers in many of these schemes. What Keith Anderson is proposing is not dissimilar to the sort of scheme that we already have in place to support consumers.

Elena Whitham (Carrick, Cumnock and Doon Valley) (SNP): I am convener of the Social Justice and Social Security Committee, which has taken harrowing evidence that people are facing unimaginable choices and that support services are already extremely stretched. You talked about the global crisis and the rest of the world, but the situation appear to be disproportionate across the UK.

Evidence to date suggest that supports that the Government has announced will not adequately alleviate the impact of the energy crisis, especially for the most vulnerable households, some of whom have already self-disconnected because of soaring costs. The risk of wholly avoidable deaths looms large this winter.

Pre-payment meter households pay more than direct debit households. What justification is there for vulnerable people paying a premium for their energy? The committee heard yesterday from Ofgem that that is needed to balance the risk to the suppliers, but what protections are in place for those households and what more should be done? Could a social tariff, which was proposed by Scottish Power in a previous meeting, play a role?

Greg Hands: Thank you for those questions. There is a lot in them. First, the warm homes discount was brought in in 2011 to replace the social tariff. We think that it is the better approach.

You raised some important points about fuel poverty, and we are acutely aware of the impact on vulnerable customers. As I said, we have a lot of support in place, and I have already outlined the elements of the UK Government's huge support package. Equally, when gas prices are anything up to 12 or 15 times the historic 20 to 25 year norm, as they were when they peaked back in early March, we are talking about a completely unprecedented situation. We have provided a lot of support, but I do not think that we are able to completely insulate the UK from those very high wholesale energy prices. Fortunately, those prices have come down from that peak, but they remain quite volatile.

Your point about pre-payment customers is really important. We have to make sure that those customers get a fair deal, and that is what we are doing, while working closely with Ofgem. The number of disconnections continues to fall, which is good. We work closely with energy suppliers, as does Ofgem, to make sure that they do all that they can to help customers who are struggling to pay their bills. For example, Ofgem warns suppliers that PPMs should be installed only as a last resort and for debt collection, and it banned the forcible installation of pre-payment meters for vulnerable customers in 2017. In December 2020, Ofgem introduced new licensing conditions, including an ability to pay principle and an obligation on suppliers to proactively identify the self-disconnection and self-rationing of PPM customers.

A lot of measures have been put in place, encouraged by the Government and administered by Ofgem, to make sure that PPM customers are protected.

Elena Whitham: That is very interesting, and I am certain that this committee and my committee will follow closely the data that you say shows that self-disconnections are reducing. That does not chime with the evidence and the reality that we are seeing on the ground.

Sticking with data, there is not enough disaggregated, gendered data—as is usually the case—but there is strong circumstantial evidence that women are at a higher risk of experiencing circumstances known to make households more vulnerable to fuel poverty. I am thinking here about lower pay, women who have caring responsibilities, and women who head single-parent families. It is important that policy makers understand what role gender plays, and that they respond accordingly.

What gendered analysis did the UK Government do prior to agreeing to lifting the price cap? How do you intend to monitor its impact on women?

Greg Hands: Those are all incredibly important points. First, the operation of the price cap is a matter for Ofgem. The price cap was designed to protect consumers, particularly those who were facing what was called a loyalty penalty because they were effectively penalised for not moving between suppliers.

The price cap rises because it is backward looking, if you like. The situation is better than it would have been if there had been no price cap in place, because people would have faced those rises in their energy bills earlier in that six-month period. This way, they face the rises at the end of that period. That is why the price cap looks as though it is going up a lot. It has gone up a lot, but it reflects the rise in prices in the preceding period.

I remind the member that fuel poverty is, of course, devolved, and that Scottish measures differ from those in the rest of the UK. In England, because data is collected by household, we do not have specific fuel poverty data on female or male households. It would be good to ask Scottish ministers how they disaggregate that data.

What I can say is that some characteristics of vulnerable customers are more likely to be true of women than of men. For example, lone parents with dependent children are 26.5 per cent in fuel poverty, compared to 13.2 per cent of the population as a whole. Those people are not defined as being women, but that figure is much more likely to include women at twice the rate of fuel poverty. A lot of what is behind your question is therefore likely to be correct, and women suffer from fuel poverty more than men do, but I must stress that the situation is more complicated than that and we would really have to disaggregate the data overall.

We do not publish fuel poverty statistics in England or the rest of the UK based on gender; I am not sure what the Scottish Government does. However, it is certain that lone parents and couples are more likely to be in fuel poverty than single people are.

I am not disputing the basis of your question, but fuel poverty data is collected by household rather than by individual. However, some of the indicators within those households definitely show that lone parents, for example, are more likely to be in fuel poverty than others.

It is a good question to put to the Scottish Government.

Elena Whitham: Thank you. It is a question that I will put to everybody at every opportunity that I have, because we do not have enough disaggregated gendered data for most things.

The Convener: Thank you. That brings us to the end of our allocated time. Minister, I appreciate that you have to go at 10 o’clock, so I thank you very much for taking part in this meeting. It is very much appreciated. It was good to see you again. Enjoy the rest of your day.

I now close the public part of the meeting.

09:58

Meeting continued in private until 10:09.

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