Accelerating the transition from fossil fuels and securing energy supplies

Positive Money response to Environmental Audit Committee Call for Evidence
6 May 2022

Positive Money welcomes the opportunity to respond to this Environmental Audit Committee call for evidence.

We are a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

If you would like to discuss any aspects of this response please contact Simon Youel, Head of Policy & Advocacy at Positive Money: simon.youel@positivemoney.org.uk

Key points

- The Government's Energy Security Strategy is an important step forward, but falls far short of what is needed to reduce reliance on oil and gas in line with an upper 1.5C degree limit.
- Retrofitting homes would reduce demand for energy while saving households hundreds of pounds a year in bills. The failure to introduce demand-reduction measures is a major failing of the current strategy.
- In particular, the proposed licensing round for new oil and gas exploration in Autumn 2022 directly undermines the government's climate goals. The government should not approve licences for any new domestic fossil fuel expansion projects, and instruct the Bank of England to restrict investment in projects that are incompatible with the IEA pathway to net zero by 2050 and ecological limits.
- The fastest and most reliable way of protecting households from energy price spikes is through stronger price caps on energy prices.
- A windfall tax is a commonsense way of distributing the skyrocketing profits energy companies have made due to the ongoing war in Ukraine, and represents very little downside. The revenue from a windfall tax could be used to accelerate the UK's energy efficiency investments whilst supporting some of the 6 million families at risk of fuel poverty this year.
- The government should phase out all tax relief and financial support for the fossil fuel industry as a matter of urgency, whilst catalysing green investment through targeted lending schemes, such as the Bank of England's Term Funding Scheme (TFS), and the UK Infrastructure Bank.

Securing sustainable energy supplies and protecting households from high prices

1. How effective will the Government's Energy Security Strategy be: at reducing reliance on oil and gas at the pace required to limit global heating to 1.5 degrees; securing alternative energy supplies; and protecting households from high fossil fuel prices?

(a) Reducing reliance on oil and gas at the pace required to limit global heating to 1.5 degrees

1.1. The Government's Energy Security Strategy is an important step forward, but falls far short of what is needed to reduce reliance on oil and gas in line with an upper 1.5C degree limit. As the IEA and IPCC have made clear, the only responsible way of stabilising energy prices in the long term, as well as having any chance of maintaining 1.5C alive, is to reduce the share of oil and gas in the system, by (1) stopping all new fossil fuel exploration and expansion, and (2) rapidly upscaling investment in renewable energy. The current Strategy falls short on both counts.

1.2. The proposed licensing round for new oil and gas exploration in Autumn 2022 directly undermines the government's climate goals. In May 2021, the International Energy Agency warned that *all* investment in new oil, gas and coal supply must stop this year if the world is to reach net zero by 2050.[1] In addition, as such projects take many years to develop, they will not help to fill energy supply gaps in the short term, nor stabilise prices. As IEA forecasts make clear, any development of new fossil fuel sites will cause the further lock-in of both pollution and stranded assets, increasing transition risks for all oil and gas investments (not just new ones).[2]

1.3. The government should not approve licences for any new domestic fossil fuel expansion projects, and instruct the Bank of England to restrict investment in projects that are incompatible with the IEA pathway to net zero by 2050 and ecological limits. Britain's banks have facilitated the expansion of £275bn (USD $364.342) of credit into fossil fuels since 2016, with £35 (USD $46.991) billion in 2021.[3] It is likely that Britain would have already been able to replace its reliance on oil and gas with renewables if this investment had instead been directed towards projects such as offshore wind. The Bank of England should utilise credit policies to help guide investment towards meeting Britain's energy security needs and climate goals, limiting investments which are incompatible with the pathway to net zero by 2050 outlined by the IEA, such as financing for new fossil fuel projects. In addition to aligning finance with 1.5C, restrictions on private credit creation (which makes up the vast majority of money in the economy[4]) could also help prevent economic 'overheating' and ensure fiscal space for increased investment in decarbonising homes and switching to renewable energy sources. Such policies could include qualitative

[1] International Energy Agency, 'Net Zero by 2050: A Roadmap for the Global Energy Sector', May 2021: https://www.iea.org/reports/net-zero-by-2050
[2] https://www.greenpeace.org.uk/wp-content/uploads/2022/02/zeroing_in_investor_briefing.pdf
[3] https://priceofoil.org/2022/03/30/banking-on-climate-chaos-2022/
[4] https://positivemoney.org/how-money-%20works/

and quantitative regulations to restrict credit towards new fossil fuel projects, as well as regulations to restrict credit towards activities such as M&A, to prevent greater market concentration in the energy sector raising prices. As a recent macroprudential bulletin from the European Central Bank concludes, "Quantitative and qualitative restrictions on banks' portfolios could contribute to limiting the build-up of climate risks."[5]

(b) securing alternative energy supplies;

1.4. On securing alternative energy supplies, we welcome the government's accelerated target to produce 95% of the UK's electricity from low-carbon sources by 2030, including offshore wind, but current plans do not go far enough. Offshore wind is now amongst the cheapest forms of electricity in the UK, with onshore wind even cheaper,[6][7] and estimates suggest that all UK homes could be powered with offshore wind for £50 billion.[8] Moving at an urgent pace (similar to the roll out of the Covid vaccine programme), with significantly higher levels of investment, the energy system could be electrified with renewable sources within one to two years. Analysis from Carbon Brief has shown that there are 649 individual onshore wind and solar projects that have already been granted planning permission, but are not yet built because of the lack of Government support to bring them to the market.[9] If built, these projects could quickly generate more energy than the UK is currently importing every year from Russia.[10] The lack of investment in onshore wind - which has twenty times more supporters than opponents - is a serious failing of the current Energy Strategy.[11]

1.5. The Climate Change Committee recommends that to reach net zero by 2050, the UK must upscale low-carbon investment through public and private sources from £10bn/year in 2020 to £50bn/year by 2030.[12] These goals will require an urgent reorientation of finance away from fossil fuels and towards green alternatives, using all policy levers available. The government's Energy Security Strategy does not currently address the clean financing gap, nor set out ways to stop the financial sector from undermining the government's climate targets by continuing to finance fossil fuel expansion that is incompatible with a 1.5C limit.

1.6. Currently, levels of public and private investment are a long way off what is required to meet these goals. The UK banking sector is in fact pulling in the opposite

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[5] https://www.ecb.europa.eu/pub/financial-stability/macroprudential-bulletin/html/ecb.mpbu202110_1~5323a5baa8.en.html

[6] https://www.carbonbrief.org/wind-and-solar-are-30-50-cheaper-than-thought-admits-uk-government

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/911817/electricity-generation-cost-report-2020.pdf

[8] https://www.theguardian.com/environment/2020/oct/06/powering-all-uk-homes-via-offshore-wind-by-2030-would-cost-50bn

[9] https://inews.co.uk/opinion/fracking-onshore-wind-boris-johnson-uk-weapon-against-vladimir-putin-1506705

[10] https://inews.co.uk/opinion/fracking-onshore-wind-boris-johnson-uk-weapon-against-vladimir-putin-1506705

[11] https://www.greenpeace.org.uk/news/onshore-wind-power-popularity-public-opinion/#:~:text=Most%20people%20don't%20realise%20how%20popular%20onshore%20wind%20is&text=73%25%20said%20they%20did..people's%20guesses%20were%20too%20low.

[12] https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf

direction, continuing to pour billions of pounds a year into fossil fuel development at home and abroad. Emissions from projects financed by the UK banking sector are greater than those of other European countries, with the biggest five UK banks pouring £227 billion into fossil fuel development between 2016 and 2020.[13] Public investment in the energy transition is also lagging. The government's Net Zero Strategy set out plans to 'unlock' £90 billion of new investment in the green transition between 2021 and 2025, of which more than £60 billion is expected to come from the private sector.[14] But £90 billion is the same amount that has been invested in renewables in the last nine years, and therefore inadequate. Economists have called for the government to upscale public investment in the green transition to at least £30 billion a year to meet the government's net zero target.[15]

1.7. Green investment should be supported through targeted lending schemes, such as the Bank of England's Term Funding Scheme (TFS). The government should work with the Bank of England to encourage, and in some cases require, private banks to channel their lending for green projects, such as renewable energy infrastructure and retrofits.[16] The Bank's TFS was adjusted to support specific parts of the economy during the pandemic. Further changes could be introduced to increase green lending to small businesses and households by lowering the cost of borrowing for green activities. The Bank of England's Japanese counterpart announced a similar scheme last year.[17]

1.8. The government should significantly increase capitalisation of the UK Infrastructure Bank (UKIB). UKIB could be mission-critical to delivering renewable energy infrastructure as well as efficiency measures such as retrofits, by coordinating stakeholders, channelling public funds and bringing together sources of capital.[18] With the seed funding for the UKIB set currently at only £12bn (with further £10bn in government guarantees) over the next five years, the Office for Budget Responsibility has reported the UKIB would only be able to support £1.5bn a year in investment. This falls far short of £5bn a year on average the UK received from the European Investment Bank (EIB) ahead of the Brexit referendum, and is even further off the current green investment gap in the UK, estimated as at least £10bn annually with additional funding needs increasing to £50bn according to the CCC.[19] The government should therefore commit to significantly increasing UKIB's paid-in capital.[20] Such funding could be augmented by the Bank of England, building on the historic roles of central banks in supporting successful infrastructure bank projects.[21]

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[13] https://www.ran.org/bankingonclimatechaos2021/
[14] https://www.gov.uk/government/publications/net-zero-strategy
[15] https://www.ippr.org/news-and-media/press-releases/budget-investment-boost-of-33bn-a-year-needed-to-put-uk-on-path-to-net-zero-by-2050-chancellor-told
[16] E. Lonergan, M. Greene. 2020. 'Dual interest rates give central banks limitless fire power'. Retrieved from https://voxeu.org/article/dual-interest-rates-give-central-banks-limitless-fire-power
[17] https://www.bloomberg.com/news/articles/2021-06-18/boj-announces-new-steps-on-climate-change-stands-pat-on-rates
[18] https://9tj4025ol53byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/UK-Infrastructure-Bank-Built-Environment-roundtable-E3G-Briefing-Paper.pdf
[19] [1] Nick Robins. 'CCC(Dec 2020)_The Road to Net-Zero Finance', A report prepared by the Advisory Group on Finance for the UK's Climate Change Committee. Retrieved from https://www.theccc.org.uk/wp-content/uploads/2020/12/Finance-Advisory-Group-Report-The-Road-to-Net-Zero-Finance.pdf
[20] https://9tj4025ol53byww26jdkao0x-wpengine.netdna-ssl.com/wp-content/uploads/UK-Infrastructure-Bank-Letter-April-2021.pdf
[21] https://www.ucl.ac.uk/bartlett/public-purpose/publications/2018/aug/bringing-helicopter-ground

(c) and protecting households from high fossil fuel prices?

1.9. The fastest and most reliable way of protecting households from energy price spikes is through stronger price caps on energy prices. To protect households, the government should be considering much stronger price caps on energy, at the very least ensuring that Ofgem does not increase the price cap further in October 2022 (see more in paragraph 2.1.). The government should introduce further targeted support that covers the expected rise in energy bills for households on low incomes. This could involve extra payments for households on Universal Credit, equivalent legacy benefits, and Pension Credit whenever the energy price cap rises significantly.[22]

1.10. Longer-term, the government can only protect households from volatile energy prices by reducing the share of oil and gas in the energy system, which the current strategy will not deliver quickly enough. The UK is particularly exposed to changes in gas prices, with the cost of gas four times higher in January 2022 than a year earlier.[23] The volatile nature of oil and gas will be a long-term feature of global energy markets, and price fluctuations should be expected regardless of the speed of the energy transition. At the same time, climate change and ecological breakdown are bringing us into an era of long-term instability and uncertainty, threatening the basic conditions for price and financial stability.[24] As the Climate Change Committee makes clear, "any increases in UK extraction of oil and gas would have, at most, a marginal effect on the prices faced by UK consumers in future".[25] Newly extracted fossil fuels will most likely be sold to the highest bidder on international markets, doing little to support domestic energy supply.

2. Is the Government doing enough to protect the high number of households likely to fall into fuel poverty as a result of high fossil fuel prices over the coming year? To what extent, and how rapidly, could energy saving or efficiency measures help to reduce reliance on oil and gas and relieve fuel poverty?

2.1. The government is not doing enough to protect households falling into fuel poverty, and should be considering much stronger price caps on energy, whilst providing more direct financial support to households in the short term. The UK's heavily privatised and fragmented energy sector allows natural monopolies to engage in exploitative pricing, and the government's approach to the gas crisis has protected company profits at all costs.[26] As a result, up to 6 million households could fall into fuel poverty[27], while Shell and BP reported Q1 2022 profits of £7 billion and £5 billion respectively, the highest in

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[22] https://www.greenpeace.org.uk/resources/civil-society-statement-on-energy-independence-and-spring-statement/
[23] https://www.ons.gov.uk/economy/inflationandpriceindices/articles/energypricesandtheireffectonhouseholds/2022-02-01
[24] https://eprints.soas.ac.uk/35496/1/The%20Price%20of%20Hesitation_FINAL-New.pdf
[25] https://www.theccc.org.uk/publication/letter-climate-compatibility-of-new-oil-and-gas-fields/
[26] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/EnergyConsumersMissingBillions.pdf
[27] https://www.theguardian.com/society/2022/jan/01/6m-homes-uk-pay-energy-bills-price-hike-fuel-poverty

over a decade.[28] By contrast, the French government has limited gas price increases to 12.6% and promised further help after the cap ends in April, whilst also restricting increases in power costs to 4%, with supplier EDF offering discount prices.[29]

2.2. Retrofitting homes would reduce demand for energy while saving households hundreds of pounds a year in bills. The failure to introduce demand-reduction measures was a major failing of the energy security strategy. The UK has some of the least efficient homes in Europe.[3031] Air source heat pumps are four times more efficient than gas boilers.[32] An urgent programme to deliver retrofits at scale could significantly reduce dependence on gas, and is essential for meeting the UK's climate goals. It would also reduce energy bills at a critical moment, as consumers are facing rising prices and a wider cost of living crisis. The Green Homes Grant's Local Authority Delivery scheme has already saved recipient households £1.2 billion on their energy bills. The Institute for Public Policy Research has estimated that decarbonising the UK's housing stock could also create 138,000 new jobs.[33] Renewables and efficiency measures are also much more popular than increasing domestic gas production.[34]

2.3. The government should provide retrofit grants for poorer households, and work with the Bank of England to offer cheap lending for retrofit measures. The New Economics Foundation (NEF) estimates that upgrading the UK's entire housing stock to EPC Band C by 2030 requires a total spend of £35.6bn over a five-year period (2020/21-2024/25), which means significantly upscaling both public and private investment.[35] The government should offer full grants to cover the costs of retrofitting fuel poor households. It should also explore reforms to the mortgage market to incentivise lending for retrofit measures and reduced interest rates for efficient properties. The Bank of England could play a critical role in the green mortgage market through its credit guidance policies such as its Term Funding Schemes, which could ensure low, or even negative, interest rates for improvements which reduce fossil fuel usage, such as retrofits or solar panels. As NEF has proposed, the government should look into a national loan guarantee scheme, an interest rate offsetting scheme, and favourable capital treatments for green mortgage loans.[36]

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[28] https://www.cnbc.com/2022/05/05/shell-earnings-q1-2022.html
[29] https://www-gouvernement-fr.translate.goog/actualite/le-gouvernement-veut-limiter-la-hausse-du-tarif-de-l-electricite-a-4?_x_tr_sl=fr&_x_tr_tl=en&_x_tr_hl=en&_x_tr_pto=sc
[30] https://theenergyst.com/europes-leakiest-homes-new-study-fingers-britain-fails-to-plug-gaps/
[31] https://environment.inparliament.uk/sites/environment.inparliament.uk/files/2022-03/How%20to%20power%20an%20affordable%20net%20zero%20economy%20-%20APPG%20briefing_%20%28002%29_0.pdf
[32] https://www.theecoexperts.co.uk/air-source-heat-pumps/efficiency#:~:text=%20Yes%2C%20heat%20pumps%20are%20much%20more%20efficient,usually%20around%20370%25%20more%20efficient%20than%20gas%20boilers.
[33] https://www.ippr.org/research/publications/pump-up-the-volume
[34] https://www.independent.co.uk/news/uk/government-britons-kwasi-kwarteng-yougov-qatar-b2051952.html?utm_source=Economic+Change+Unit&utm_campaign=30cc7ce0e7-Biden_COPY_01&utm_medium=email&utm_term=0_6101fe9ecd-30cc7ce0e7-207781818&mc_cid=30cc7ce0e7&mc_eid=71915449d8
[35] https://neweconomics.org/uploads/files/Great-Home-Upgrade-Policy-Briefing_September-2021_final.pdf
[36] https://neweconomics.org/uploads/files/Great-Home-Upgrade-Policy-Briefing_September-2021_final.pdf

Tax and the fossil fuel industry

3. What are the pros and cons of a windfall tax levied on fossil energy producers? How should the revenue from any levy be allocated?

3.1. A windfall tax is a commonsense and fair way of distributing the skyrocketing profits energy companies have made due to the ongoing war in Ukraine, and represents very little downside. Companies are set to make £11.6 billion windfall profits on UK oil and gas in 2022, with BP and Shell reporting their highest earnings in over a decade.[37] The argument that a windfall tax would deter investment in the UK's energy security does not hold. BP's chief executive, Bernard Looney, has said none of the £18bn UK investments the company is planning would be dropped if a windfall tax were imposed.[38] Of the 49 current oil and gas producers in the North Sea, only 11 companies also generate renewable energy in the UK and cannot be counted on to invest sustainably, particularly with government subsidies and tax breaks for fossil fuel investment still in place.[39] The International Energy Agency estimates that oil and gas companies invested only 1% of their capital expenditure in clean energy in 2020, and little more than 4% last year, with the vast majority going into fossil fuels.[40] As the fossil fuel industry is not nationalised, the UK exports 80% of its North Sea oil, meaning increased production would further increase energy company profits, but do little to increase the UK's energy security.

3.2. The revenue from a windfall tax could be used to accelerate the UK's energy efficiency investments whilst supporting some of the 6 million families at risk of fuel poverty this year. The £11.6 billion in windfall profits, if fully requisitioned by the government, could relieve energy poverty in the UK by kickstarting an urgent programme of home retrofitting. As Greenpeace have calculated, if £5 billion was used for supporting energy efficiency and clean energy development, the remaining £6.6 billion would provide the six million households experiencing fuel poverty £1,100 pounds each.[41] An alternative proposal by Energy Poverty Action is a new pricing structure for energy, which guarantees everyone enough energy, for free, to cover the basics like heating, cooking, and lighting, taking account of people's actual needs related to their age, health, and housing, with those that use excessive amounts paying more. This would address the problem that those using less energy currently pay more per unit, and could be paid for using proceeds from a windfall tax and an end to fossil fuel subsidies.[42]

4. Should the Government continue to provide tax reliefs or financial support to the fossil fuel industry, such as the ring-fence corporate tax relief for new oil and gas fields?

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[37] https://www.greenpeace.org.uk/wp-content/uploads/2022/04/UK-Big-Oil-War-Windfall-Analysis..pdf
[38] https://www.theguardian.com/business/2022/may/05/shell-profits-windfall-tax
[39] https://www.stopcambo.org.uk/updates/bp-q1-profits
[40]https://www.iea.org/reports/world-energy-investment-2021/executive-summary
[41] https://www.greenpeace.org.uk/wp-content/uploads/2022/04/UK-Big-Oil-War-Windfall-Analysis..pdf
[42]https://www.fuelpovertyaction.org.uk/campaigns/energyforall-petition-everyone-has-a-right-to-the-energy-needed-for-heating-cooking-and-light/

4.1. The government should phase out all tax relief and financial support for the fossil fuel industry as a matter of urgency. Oil and gas companies have enjoyed a special tax regime since 1975, designed to support North Sea investment during an oil price crash. As a result, between 2016 and 2020, oil and gas companies received £9.9 billion in tax relief for new exploration and production, and £3.7 billion in tax relief for decommissioning costs.[43] COP26 committed the UK to "phasing down" inefficient fossil fuel subsidies, and in 2016 the UK, as part of the G7, pledged to end most fossil fuel subsidies by 2025. This should be implemented as a matter of urgency.

The transitional role of oil and gas in the energy mix

5. Can the UK's oil and gas reserves be exploited while limiting global temperature rises to 1.5c in line with the Paris Agreement?

5.1. In May 2021, the International Energy Agency warned that investment in new oil, gas and coal supply must stop this year if the world is to reach net zero by 2050, and said that annual global investment in clean energy needs to increase by more than triple, to $4tn by 2030.[44] There is no such thing as a 'climate-compatible' oil and gas licence in 2022. Any development of new fossil fuel sites will cause the further lock-in of both pollution and stranded assets, increasing transition risks for all oil and gas investments (not just new ones).[45] The government should not approve licences for any new domestic fossil fuel expansion projects, and instruct the Bank of England to restrict investment in projects that are incompatible with the IEA pathway to net zero by 2050 and ecological limits.

6. Is the North Sea Transition Deal genuinely compatible with the UK's current domestic carbon targets and international obligations? How rigorous is the proposed Climate Compatibility Checkpoint for new oil and gas fields?

6.1. See paragraph 5.1.

[43] Paid to Pollute, 25 November 2021, press release, 'UK has given £14bn in subsidies to oil & gas industry'
[44] International Energy Agency, 'Net Zero by 2050: A Roadmap for the Global Energy Sector', May 2021: https://www.iea.org/reports/net-zero-by-2050
[45] https://www.greenpeace.org.uk/wp-content/uploads/2022/02/zeroing_in_investor_briefing.pdf