



OFFICIAL REPORT
AITHISG OIFIGEIL

Net Zero, Energy and Transport Committee

Tuesday 26 April 2022

Session 6



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NET ZERO, ENERGY AND TRANSPORT COMMITTEE
13th 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

THE FOLLOWING ALSO PARTICIPATED:

Dan Alchin (Energy UK)

Keith Anderson (ScottishPower)

Chris Birt (Joseph Rowntree Foundation)

Ross Dornan (Offshore Energies UK)

Paul Gilbert (Scottish Government)

Patrick Harvie (Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights)

Frazer Scott (Energy Action Scotland)

Alastair Wilcox (Citizens Advice Scotland)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

Committee Room 2

Scottish Parliament

Net Zero, Energy and Transport Committee

Tuesday 26 April 2022

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Dean Lockhart): Good morning, everyone, and welcome to the 13th meeting in 2022 of the Net Zero, Energy and Transport Committee, which we are conducting in hybrid format.

Agenda item 1 is consideration of whether to take agenda items 5 and 6 in private. Agenda item 5 is consideration of the evidence that we will hear under agenda item 4, and agenda item 6 is consideration of the committee's work programme. Do members agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Local Heat and Energy Efficiency Strategies (Scotland) Order 2022 [Draft]

09:31

The Convener: Agenda item 2 is consideration of a statutory instrument: the draft Local Heat and Energy Efficiency Strategies (Scotland) Order 2022. The Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights, Patrick Harvie, has joined us. Good morning, minister, and thank you for making yourself available to be at the committee. I also welcome the Scottish Government officials who join the minister: Anastasia Charalampidou is heat planning team leader and Paul Gilbert is a senior policy adviser.

The instrument has been laid under the affirmative procedure, which means that the Parliament must approve it before it comes into effect. Following this evidence session, the committee will be invited, under the next agenda item, to consider a motion to approve the instrument.

I invite the minister to make a short opening statement.

Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights (Patrick Harvie): Good morning, colleagues. I am grateful for the opportunity to give evidence on the draft Local Heat and Energy Efficiency Strategies (Scotland) Order 2022.

As we are all aware, achieving our statutory targets for net zero and fuel poverty will mean transforming Scotland's building stock. As set out in our heat in buildings strategy, we have to ensure that, by 2045, our homes and buildings no longer contribute to climate change, as part of the wider just transition to net zero. More specifically, by 2033, all homes should have achieved a good level of energy efficiency—equivalent to energy performance certificate band C—and, by 2030, emissions from heating our homes and buildings must be 68 per cent lower than 2020 levels. That will require very significant deployment of zero-emissions heating.

Delivering that transformation will require concerted effort across national and local government as well as the wider public and private sectors. Locally led planning will be key to ensuring that the decarbonisation of heat in buildings is delivered in a way that is relevant to local contexts and tailored to the specific needs of communities. Such planning is needed to translate national and local net zero priorities into place-based strategies for heat decarbonisation and energy efficiency improvement.

Local heat and energy efficiency strategies are the principal mechanism for that locally led planning. They will support local planning, co-ordination and delivery of the heat transition across communities in Scotland.

The Scottish Government has been working closely with local authorities to test approaches for local heat and energy efficiency strategies. I express my gratitude to all those who took part in the pilot programme, which involved all 32 Scottish local authorities and was a great example of partnership working between national and local government.

LHEES will be structured in two parts. Local strategies will provide a long-term strategic framework for the improvement of the energy efficiency of homes and buildings in the local authority's area and the reduction of greenhouse gas emissions resulting from the heating of such buildings. Those strategies will be accompanied by delivery plans, which will set out how a local authority proposes to support the implementation of its strategy.

The Local Heat and Energy Efficiency Strategies (Scotland) Order that we are debating today will place a duty on local authorities to produce strategies and delivery plans by the end of 2023 and then to update them every five years. If the committee and the Parliament approve the order and it is brought into force, it will create a clear statutory basis that will ensure consistency and comprehensive coverage across Scotland against a common minimum standard and raise the profile of local strategies with industry and investors.

The order was developed in co-operation with the Convention of Scottish Local Authorities. I particularly thank COSLA's environment and economy spokesperson, Councillor Steven Heddle, and COSLA leaders for their support and for the partnership approach that has been taken in developing local heat and energy efficiency strategies.

Local authorities will need to be suitably resourced to undertake the new duty. Scottish Government officials are working with COSLA to deliver appropriate funding to enable local authorities to access the necessary staff capacity and technical skills to produce their local heat and energy efficiency strategies.

It is clear that local government has an absolutely critical role to play in the transition of Scotland's building stock to deliver net zero and that many local authorities are already driving forward action in that area. Approving the order will ensure that there is consistent, comprehensive coverage of local heat and energy efficiency strategies across Scotland and will enable local

planning, co-ordination and delivery of the decarbonisation of Scotland's homes and buildings.

I look forward to the committee's discussion and to answering questions.

The Convener: Thank you for those opening remarks, minister. We move to questions. I will bring in Liam Kerr shortly but, first, I want to ask about the primary purpose of the instrument, which, as you outlined, is to place a duty on local authorities to produce local heat and energy efficiency strategies by 31 December 2023. That is a 20-month timeframe, which might seem to be a sufficiently long period.

However, as you know, local authorities will need more clarity on the Scottish Government's plans in this area, especially the heat in buildings strategy, a lot of the detail of which has still to be confirmed. For example, the terms of reference for the green heat finance task force show that it will report on heat decarbonisation by September 2023, which is only a couple of months before the deadline for local authorities to provide their strategies. That is not an enormous amount of time.

It would be helpful if you could explain the timing for the establishment of the green heat finance task force, who its members will be and what engagement it will have with local authorities throughout the process.

Patrick Harvie: A huge amount of work is happening in this space, not only in the next year or two, when local authorities have to deliver their first LHEES, but in the longer term. This is a multidecade programme of work.

The green heat finance task force is already up and running, and its membership has been published. If the committee has not been sent that, we can point you to the part of the Scottish Government website that details that work. The task force will be looking at the wide range of finance solutions that will be necessary in the long term to deliver that multidecade programme of work and the large-scale investment—both private and public—that will be required.

It is tempting to think that we will not have gone far or fast enough until we have completed every element of that multidecade programme of work. I am the first to say that Scotland and other countries are not yet where we should be. Many people would say that a lot of the transition should have taken place a long time ago. Now that we are under way, it is clear that local authorities, using the resource that we are discussing with COSLA, will have the capacity to deliver their first LHEES by the end of next year. It would be wrong to assume that they cannot undertake that work until the finance task force has answered every

question about the longer-term funding of the whole heat transition.

In many ways, the first iteration of the strategies will be about identifying issues that local authorities are already looking at, such as the nature of their building stock and the likelihood of heat networks in different parts of the country. The maps that have been developed by the Scottish Government to inform the first national assessment of heat networks are already available and more information is coming down the pipeline.

A huge amount of work is already under way, and I have no doubt that local authorities will be able to complete their first LHEES by the end of next year. The green heat finance task force will continue to indicate the longer-term solutions that are necessary for the much more substantial task that lies ahead in the years and decades to come.

The Convener: Thank you for that response. I have a brief supplementary question. You have indicated in the chamber that the vast majority of funding for the heat in buildings strategy will have to come from the private sector, or at least through public-private partnership co-financing. Where is the Scottish Government with regard to identifying mechanisms and sources of private capital to finance the heat in buildings strategy?

When it comes to local authorities issuing their strategies, the question of how they will be financed will be absolutely central. Will we have further clarity over the next 12 months on the issue of sourcing finance to allow local authorities to put together proper strategies?

Patrick Harvie: The green heat finance task force is already up and running and meeting. It might be more appropriate if I were to provide a written update to the committee in the near future about the work that the task force is already doing. That is rather separate from the question of resourcing local authorities to undertake the work that they will be given a duty to undertake by the order, if it is approved.

The scale of investment that is needed for the development of the strategies in the first instance over the next year and a half or so is of a significantly lower order than the scale of investment that is needed for the transformation of our building stock over the coming years and decades. It would be helpful to separate out those two issues, and I will provide the committee with a written update on the work of the task force at some point in the near future.

The Convener: That would be very helpful.

Am I right in saying that the strategies are five-year strategies? How far ahead will the strategies that local authorities will publish by 31 December 2023 look?

Patrick Harvie: In the first instance, the first strategies will have to be completed by the end of 2023, and they will be updated on a five-yearly basis from that point.

The nature of the challenge will be different in different parts of the country, which is why locally led planning is so important. It would be appropriate for each local authority to identify in its first strategy the issues and challenges that need to be addressed. It is fair to say that, at this point, no one is able to confidently predict with precision exactly how the strategies will be implemented over the coming decades. That is why we will go through the process of giving local authorities not only the duty but the resources to identify the circumstances that are right in their locations, to develop place-based approaches and to update them on a five-year cycle.

The Convener: It strikes me that it might be quite an onerous task for local authorities to put together a five-year strategy by 2023 without having an answer to the question of how it will be financed, but I am sure that we will come back to that question at another time.

I bring in Liam Kerr.

Liam Kerr (North East Scotland) (Con): Good morning. My questions relate to some of the points that the convener raised. Article 5 of the instrument suggests that the Scottish Government will provide guidance to local authorities to assist them in developing their plans. When does the Scottish Government expect to publish that guidance? From your discussions with the likes of COSLA, how long do you anticipate that local authorities will need between publication of the guidance and production of the plans? How will you ensure that public bodies have sufficient time to prepare their final plans after the publication of that guidance?

09:45

Patrick Harvie: Our experience of working through the pilot phases gives us confidence that, with the right resources and capacity in place, local authorities will be able to complete that work on the timescale that we have set out. As I said in my opening remarks, we have worked very well and closely with COSLA as a body and with the individual local authorities that have been taking forward their pilots, and I do not think that significant concern has been raised about the timescale for the first strategies.

Liam Kerr: You have rightly mentioned several times the issue of resourcing and the need for what would presumably be extra resources, or the repurposing of current staffing resources, in order to produce the plans. What are the Scottish Government's projections of the cost to local

authorities of that extra resourcing? Do you expect the Scottish Government to support that resourcing? If so, will that support cover the whole process or just a part of it?

Patrick Harvie: It would be inappropriate to predict the outcome of the discussions that we are having with COSLA. We need to work in a co-operative and collegiate way with local government, and that is the spirit in which we are entering the process.

However, as an indicative example, the most recent pilot phase offered local authorities the option of bidding for up to £50,000 for staff or consultant capacity to allow them to undertake their work. I think that, of those that followed things through to completion, most drew down slightly more than half of the £50,000 on offer—from £25,000 up to the mid-£30,000s. That is an indicative example of the kind of ballpark that we might be talking about but, as I have said, it would be wrong to pre-empt the discussions that we are having with COSLA by trying to predict the outcome at this stage.

Liam Kerr: Thank you. That was helpful. I have no further questions, convener.

The Convener: I call Fiona Hyslop.

Fiona Hyslop (Linlithgow) (SNP): Good morning, minister. As you will be aware, the committee is conducting an inquiry into local government and its partners in delivering net zero. In your opening remarks, you said that the strategies and delivery plans would need to be comprehensive and place based, but the fact is that local authorities do not have control of all the levers in that respect, nor do they own all the properties, space or land that is required for a place-based approach to be taken. As a result, they are dependent on working in partnership with others.

In the evidence that we have taken, we have heard that, although councils understand their leadership role here, there are certain skills that they just do not have, and I have to say that paying £50,000 for a consultant will not necessarily help with the finance side of things. You have indicated that the finance aspect will be separate, but it is quite clear that it will be integral to helping local authorities to mobilise private capital and so on, which is one of the skills bases that authorities have said that they need support with or something that they need a better collective approach to.

I realise that that is not covered in the strategy and delivery plan duty in the order before us today—in fact, it is only common sense that it has not been—but the guidance should perhaps set out better, quicker and more comprehensive support for councils to ensure that they can deliver

a comprehensive place-based approach. Do you acknowledge that it is not just a case of putting a duty and a responsibility on councils and leaving them to get on with things, and that providing integrated support through guidance and other aspects will be absolutely critical?

Patrick Harvie: Yes, I do, and it is nowhere near our intention simply to give the duty to councils and leave them to get on with things. We intend to continue the very strong collaborative work between central and local government that has got us to this stage, which shows that, in many parts of the country, there is great enthusiasm for taking forward this agenda.

Fiona Hyslop is quite right to say that needs with regard to capacity and skills might change over time, and what councils will need to go through the first iteration and get their first strategies and delivery plans published might well be different from what they will need two, three, five or seven years down the line, as they continue to deliver the strategies and see a range of different solutions in place.

For example, there will be differences not only in building stock, geography, climate and so on, but in the mix of energy sources that local authorities can draw on. Some authorities will already have their own local energy companies delivering heat networks and decarbonisation, while others might not be at that stage yet but might see the opportunity to develop those. The capacity that has been developed through that experience will also vary from council to council. That is why we need to work with councils on their own terms and in a way that is empowering to them. We aim to achieve the Scotland-wide net zero and fuel poverty targets, while empowering each local authority to decide the best way to do that in its local circumstances.

The Convener: Mark Ruskell, who is joining us remotely, has a question.

Mark Ruskell (Mid Scotland and Fife) (Green): There has been a lot of debate about the need to democratise energy, and there has been much debate in the Parliament about the idea of a national energy company. Minister, do you see the potential for local energy companies to be developed as a result of the work on the strategy? I think that you have already mentioned that there are examples of that being done. Do you see that as something that could accelerate as local authorities work through what is appropriate for their own areas?

Patrick Harvie: That will be one area of work of the new national public energy agency, which we will launch later this year.

When we published the heat networks delivery plan, I visited Queens Quay in West

Dunbartonshire. That is one example of where a local authority is already giving leadership. It is showing that the development of capacity in heat decarbonisation and heat networks can be of benefit to the local economy and to democratisation in our energy system, and it is working in a way that will also create opportunities for the private sector to connect to that network and gain co-benefits.

There will be other local authorities that have not yet gone down that road, but will see the opportunity to do so in future. They will need support to share skills and gain the capacity that is required to make that happen. The experience to date, as well as the potential support that would come from not only Scottish Government resourcing but from working with the new agency, show the huge potential for that to happen.

Monica Lennon (Central Scotland) (Lab): Good morning, minister and officials. This has been quite a good discussion. It seems that there is a lot of support for the order, but issues to do with resourcing, capacity and timescales have been raised. It is therefore good that we are having a proper discussion today.

I agree with what you said, minister, about locally led planning, which you emphasised in your opening remarks. Do you recognise that local government planning departments have been shrinking in recent years? Through this committee's inquiry, we have heard that there has been a reduction of around 20 per cent in planning officers. We also know that there is quite a lot of work to do on skills, particularly as we need to take a multidecade approach to this work, as you have said. Alongside the discussions about resourcing, does the Government realise that there has been quite a big reduction in the planning workforce? What is being done to actively address that?

Patrick Harvie: The question of resourcing needs to respect the discussion that continues to take place between the Scottish Government and COSLA. After the upcoming elections, we will see new leadership in some local authorities and, I hope, many local champions of this work across the political spectrum and across all local authorities.

The Scottish Government will work actively and constructively with individual local authorities and COSLA to address the capacity issues. Once again, however, I have to say that the discussions on specific resourcing need to be allowed to continue, and we will need to take account of Parliament's decision on passing the order before we are able to specify exactly what the funding is going to be.

Monica Lennon: Indeed. Just for clarity, the deputy convener mentioned finance skills as an example of a skill set that will be required. Can you be specific about some of the other skills that you feel are integral to this work to enable us to deliver on the ambition for local heat and energy efficiency planning Scotland-wide? What examples of skills do you have in mind when you think about this discussion?

Patrick Harvie: I ask Paul Gilbert to jump in and say a little more about local authorities' experience of the pilot phase and the types of skill sets that they have built up during it.

Paul Gilbert (Scottish Government): The pilots have not just been about the planning teams in local authorities. They have been a real success in bringing a lot of the local authority together and enabling work across teams that did not normally work alongside each other. They have brought together the expertise of people in energy services, housing, fuel poverty, planning and other parts of the local authorities. That has allowed those teams to look across the challenge that they have with heat decarbonisation and work collectively on addressing greenhouse gas emissions, addressing elements of building energy efficiency, and tackling fuel poverty. The work has involved the full skills of the local authorities, including procurement.

There is a technical element to such planning activity. Some local authorities have that capability in house and others, when they have had the opportunity, have chosen to procure consultants for technical work visualising what the pathways might look like. The work also requires skills on engagement with, and reaching out to, communities.

Monica Lennon: Thank you. It will obviously be a really multidisciplinary approach.

We have talked a little bit about routes into local government, including apprenticeships. We understand that there is an opportunity for a planning apprenticeship in England and, possibly, Wales but not in Scotland. Given the national importance of the work, what is the Government doing with colleagues in education and skills to make communities aware that the work provides really important green jobs and to promote it? Right now, young people are sitting exams and thinking about life after school. Perhaps local government does not seem to be the most exciting place for them to work. How can we promote that work and get people enthused about it?

Patrick Harvie: I am sure that Monica Lennon and I agree that not only local government but the heat in buildings agenda more generally are extremely exciting places to work.

Beyond LHEES, we also have the clear commitment to introduce a phased schedule of regulations to ensure that our homes and buildings are brought up to standard on energy efficiency and the transition to zero-emissions heating. The clear sense that the Scottish Government and local government working together are committed to that long-term agenda will give the industry confidence to invest in the recruitment, training and skills that are necessary. That, in turn, will send strong signals to the further education sector about the opportunities.

I believe firmly that there are not only good jobs but long-term, high-quality careers to be had in the transition. It is a massive investment in the transformation of our building stock. That must be done to a high quality and in a way that meets people's needs on fuel poverty. It has to be a just transition. That means that a huge amount of work needs doing. The Scottish Government is committed not only to signalling the long-term commitment to seeing that work through but to maximising the investment from public and private sources to ensure that it is well funded.

We should see the situation more as an opportunity than a challenge. It is a huge technical challenge, but it is a really big opportunity for our economy as well.

Monica Lennon: Thank you. That is helpful.

The Convener: Minister, you mentioned the national energy agency. The Cabinet Secretary for Net Zero, Energy and Transport, Michael Matheson, told the committee that it will be a virtual-only agency with no additional staffing. Is that really a sufficient response to the scale of the challenges that you have just outlined?

Patrick Harvie: The launch of the agency on a virtual basis in the first instance is the right way forward. We already have a huge amount of work in the area that can be brought together under the auspices of that agency, and can continue and develop from there on. It would be a mistake to think that the creation of the agency is simply about infrastructure such as a building and a front door rather than about cracking on with the work that is already happening and continuing to develop it. The launch of the agency on a virtual basis in the first instance will support the continued, incremental improvement to the agenda that is already being taken forward across Scotland. I also see it as a huge opportunity for sharing the skills and best practice that will be necessary to support the public, private and community sectors to take that forward.

10:00

The Convener: I understand the virtual part of it, in terms of the speed of the response, but I am

struggling to understand the no additional staffing part of it, given the scale of the challenge.

Patrick Harvie: Given that that is separate from the LHEES order that we are debating, it might be appropriate for either me or the cabinet secretary to write to the committee if there has not been a recent update on that.

We are already working with agencies and organisations to deliver not just the heat in buildings agenda but support on fuel poverty and energy efficiency. That work is already resourced, and there have been increases in resources since the beginning of the current cost of living crisis. We have been keen to ensure that we maximise the uptake and availability of the grant, loan and other advice services that are available as we continue to develop and embed that throughout Scotland. The new agency will take on a key role in not only bringing that together but improving how it is delivered throughout Scotland.

The Convener: Okay. Thank you very much. There are no further questions.

The next item is formal consideration of motion S6M-03605.

Motion moved,

That the Net Zero, Energy and Transport Committee recommends that the Local Heat and Energy Efficiency Strategies (Scotland) Order 2022 [draft] be approved.—
[Patrick Harvie]

Motion agreed to.

The Convener: The committee will report on the outcome of the instrument in due course. I invite the committee to delegate authority to me as convener to approve the draft report for publication.

Members indicated agreement.

The Convener: That is approved.

Minister, I thank you and your officials for joining us this morning. I will now briefly suspend the meeting to allow for the set-up for the next item. Thank you—and have a good day.

10:02

Meeting suspended.

10:06

On resuming—

Energy Price Rises

The Convener: Our next agenda item is our second evidence session in our inquiry into energy prices. We are looking into what is driving the increase in energy prices, what impact it is having and what can be done to alleviate that. Today, we will hear from two panels. The first panel will focus on the impact of rising prices on consumers, and the second is a panel of energy producers and suppliers.

Our first panel is joining us remotely. I welcome Chris Birt, associate director for Scotland for the Joseph Rowntree Foundation; Frazer Scott, chief executive officer for Energy Action Scotland; and Alastair Wilcox, senior policy officer for Citizens Advice Scotland. Good morning, and thank you for joining the committee. We are delighted to have you. We have allocated around 70 minutes for this panel and will move straight to questions.

In previous evidence sessions in the inquiry, we have heard that a significant amount of advice is available to consumers, including people who are suffering from fuel poverty, on measures that they can take to limit energy consumption as far as possible. However, we have also heard that that advice is highly fragmented and comes from many different organisations. Some consumers are struggling with where to start looking for the best advice, and there is a level of confusion. How can the Scottish Government and other organisations make the best advice and information readily available and, perhaps, address some of the confusion that seems to surround the availability of advice?

I put that question to all members of the panel, starting with Chris Birt.

Chris Birt (Joseph Rowntree Foundation): I will defer to Frazer Scott and Alastair Wilcox on the specific advice that is available for people, and make the more general point that there is only so much advice that you can give to people when their bills are increasing by £500, £600, £700 or even £1,000. The money expert Martin Lewis has put that quite succinctly, saying that there is, in many respects, no way to budget yourself out of the issues. I think that a member of the committee's panel last week said that the cost of living crisis is being managed in homes across the country, not by Government. That is a key message that I want to get across to the committee.

I will allow Alastair and Frazer to address the issue about advice, but I will say that it is almost

endemic across public services and advice services for people on low incomes that we have created systems that are myriad in their complexity and incredibly difficult for people to navigate.

The Convener: You raise a number of points that members will want to come in on, which go beyond the availability of advice. I will bring in Frazer Scott and then Alastair Wilcox on the question of advice.

Frazer Scott (Energy Action Scotland): In the 40 years of our charity, there has never been such a dreadful time. With sudden and dramatic increases in the price of energy and the deepening of fuel poverty for many households, it is hardly surprising that more and more people are looking for support and assistance. It is an incredibly worrying time for many people, and the situation is putting the lives and the health and wellbeing of families across Scotland at incredible risk.

They need the best advice that they can get. However, it is fair to say that, since the beginning of the pandemic, the call on advice and support services has been tremendous, and it has continued to ramp up so, as we sit here today, many of our local trusted charity organisations, which are the front line of support, are having to put people off. Their phone lines are going unanswered and, when they are being answered, it can take multiple weeks before advice can be delivered to people in crisis. Those people need support when they need it, but at the moment we are collectively failing those households. The consequence will be a detriment to health and wellbeing.

The committee is right to consider how best to support households at this time. I am keen to urge members to ensure that there is a national information programme for this incredibly difficult period. October and the winter will be absolutely dreadful for far too many households. Indeed, the expansion in the number of households in fuel poverty to more than one in three households from the pre-pandemic level of one in four households is a tremendous change, and in some parts of Scotland fuel poverty is far deeper than that. To have almost 600,000 households in extreme fuel poverty by the Scottish Government's definition is an absolutely dreadful position to be in.

I am fearful of loss of life in the winter. Without the right kinds of support and assistance, excess winter mortality is likely to increase. People need to be able to make choices but, as Chris Birt rightly said, they are few and far between. It is becoming a case of people not having to choose between heating or eating at all, because they simply cannot afford to do enough of either, and therefore we are facing one of the most difficult times that we will ever face.

The Convener: Thank you very much for that perspective. I address the same question to Alastair Wilcox.

Alastair Wilcox (Citizens Advice Scotland): I start by echoing many of Chris Birt's and Frazer Scott's comments. The importance of advice, which you touched on, is now widely recognised, but there is still an unanswered question about how to co-ordinate that provision in a way that makes sure that people can access advice where and when they need it.

We have been talking for some time about the importance of consumers having the opportunity to get advice in the locations and at the times that are most suitable to them. There should be no wrong doors for advice; in an ideal world, it should all be joined up. That advice should be wraparound; it should not focus on one specific thing but should try to do as much as it can and refer on to the partner organisations that are better placed to provide advice in specific areas in greater detail.

It is also important to talk about how all that is funded. You can create frameworks that work more effectively so that everything is more joined up. That is not just talked about a lot in the advice sector and in Government; suppliers and network companies in the energy industry talk about how all that can come together so that we work to the best effect to deliver advice to consumers who are in need.

10:15

We lack a long-term joined-up approach to how all this is funded. It is really important to have boots on the ground and places in communities where people can go to speak to others about whatever they need advice on but, in general, centralised national organisations are not particularly effective at that. We have a range of very good grass-roots organisations all over the country, but many, if not all, are extremely stretched.

It was disappointing that the Scottish Government's recent fuel poverty strategy did not contain a particularly comprehensive vision for how the Government, industry and third sector stakeholders can work together most effectively to deliver our common objectives and ensure that people get the information that they need when and where they need it and in a format that is most appropriate for them. Sometimes, that is in people's homes, sometimes it is in an office on a high street and sometimes it is over the phone or by webchat. It is important to look at all those aspects, but a multistakeholder approach is required, and we have not seen clarity from the

Government that it sees things in the same way as a lot of the stakeholders do.

The Convener: I have a supplemental question about issues that have been brought up in the opening remarks. Given the significant increase in demand for your services, which is not surprising, has each of your organisations been able to increase staffing and advice on the subject? Could the Scottish Government do more to support you in that? I ask the witnesses to answer in reverse order, please—Alastair Wilcox will go first, then Frazer Scott and Chris Birt.

Alastair Wilcox: Resourcing has been a live issue for 18 months or so. We do not know what will happen with the warm home discount scheme in Scotland. A lot of people know it as an energy bill rebate scheme, which has provided £140 a year off the bills of consumers who are eligible for the support. However, a portion of the scheme's money is segmented for what the industry calls industry initiatives, some of which support the provision of advice in communities across Great Britain, which includes projects in Scotland.

Perhaps Frazer Scott will expand on the point—I know that he has been concerned about it. Because energy suppliers have been unsure what the situation for industry initiatives will be in Scotland, they have been unable to commit to continued funding of advice services in Scotland. Earlier in the year, 35 full-time-equivalent advice roles were potentially seriously threatened by the lack of clarity. I accept that there has been disagreement between the Scottish Government and the UK Government about the way forward on the warm home discount and I understand that we will shortly see a consultation on what the scheme might look like in Scotland.

We have seen the most recent figures from the Scottish Government on its preferred option, which would involve creating what it referred to as a single flexible pot of funding from money that was levied from consumers' energy bills for the energy company obligation and the warm home discount scheme. The Scottish Government would have the opportunity to direct to an extent how the single flexible pot of funding was spent. When we drilled down into the figures that we eventually got from the Scottish Government in December, it looked as though significantly less money would be available for the provision of advice and crisis support for energy consumers than there would be under a scheme that operated more consistently with how things had gone before.

The old schemes were not perfect; there was a lot that could have been done to change them. However, we are very concerned about the apparent lack of clarity in the fuel poverty strategy on how the Scottish Government will support and facilitate the role of advice. The idea of the single

flexible pot may also mean that the funding for advice might be less than we were used to, at a time when the entire sector is expecting the need and demand for advice to increase, not only as a result of the energy crisis but as a result of the just transition to net zero. There is a mismatch between the resources that seem to be on offer and the need for services.

The Convener: You have covered a number of points that I am sure my colleagues will want to pick up on.

I put the same question to Frazer Scott.

Frazer Scott: I absolutely reiterate Alastair Wilcox's points. Advice services are funded in a myriad of ways across Scotland. One main route for a lot of the dedicated support for and advice about energy debt is the warm home discount. We have yet to hear what will happen with that in Scotland, which has caused real issues.

Organisations have not been able to expand their staffing. In fact, many organisations have struggled to recruit staff and are losing capacity. Some organisations have lost capacity because of uncertainty about funding that comes on an annual basis. The warm home discount is a prime example of that. We have yet to know what will happen to the warm home discount allocations in Scotland. Alastair Wilcox has said that it will fall: it will probably fall from 10.1 per cent to 9.4 per cent of the amount of money available in Great Britain. That is a significant fall.

Some organisations will have to run on their reserves while they wait for funding decisions that they do not expect until May of this year. Those are not large financial institutions; they are local not-for-profit organisations running on reserves and waiting for decisions about which there is always uncertainty. They have no real option other than to reduce or simply stop their services. That is what is happening. There is a real risk that we will reduce our services.

We are struggling to recruit and train people so that they can provide high-quality support and advice. The most effective kind of support for the most vulnerable people is face to face. We have heard that time and again, including in publications from Glasgow Caledonian University that have proved that face-to-face advice is the most effective advice for vulnerable low-income households. We are seeing so much demand that we need an army of people supporting others to get the best results. However, we are not there—we are a long way from where we need to be.

Let us make no mistake, this is an absolute crisis. We have never seen anything like this unprecedented moment. I know that we have said that a lot in the past few years, but this is genuinely unprecedented. People are perhaps

facing a cliff edge in affordability and we simply do not have the capacity, or the skilled people, out there.

The Convener: Thank you for that perspective. I put the same question to Chris Birt.

Chris Birt: We do not directly provide advice services, so I will not add much. I simply echo Frazer Scott's closing remarks. We are in a deep crisis. We need to provide the army of support that Frazer talked about and we are a long way from that.

Fiona Hyslop: The sheer scale and speed of the energy price crisis are overwhelming our constituents and the concern is that waiting until October, when there might be a second rise in the price cap, will be too late. The Scottish and UK Governments have already provided policy funding and support. What support do you think should be put in place immediately? What policy and funding changes are required?

Moreover, do you think that, whether it be the Scottish Government, the UK Government or, indeed, parliamentarians, we collectively are treating this as the crisis that it most obviously is? For policy advice, I will ask Chris Birt to respond first.

Chris Birt: To answer your last question first, I would say no. I do not think that, collectively, we as a society or the Government—whether the UK or Scottish Government—are treating this as the deep crisis that it is. Perhaps that can be explained by the fact that we are just coming out of another crisis; in fact, we are not even out of the Covid crisis yet, and we know what impact that has already had on low-income families. We are piling on top of that a frightening rise in people's energy bills, in particular, and we are now seeing that getting pulled through into a rise in food prices, transport costs et cetera.

I have heard this described as a perfect storm, but a storm is something that we cannot control. It is the weather. We can control the ability of households to deal with rising prices; indeed, what makes this a crisis is not the rising prices but the fact that people's incomes have been consistently eroded over 10 years. We have just seen the biggest real-terms cut in the basic rate of social security while inflation is at a 30-year high, and that will deeply damage people across Scotland and the UK.

The UK Government's response to this crisis has been woefully inadequate. On the £200 loan, for example, I have to say that just the idea of a loan is ridiculous in and of itself, and the £150 council tax rebate—which, I am sad to say, has been copied by the Scottish Government and is actually a huge missed opportunity—is spreading support too thinly. We constantly hear that

Governments have to be able to pay for the support that they give people and that they cannot support everyone, but nobody is asking them to do so. They should be supporting the households that need it the most. As a result, we should be seeing far more targeted financial support to those families from the UK Government through the social security system.

The Scottish Government is doing things such as the Scottish child payment, which, to be fair, is increasing this year and will be a welcome support for families with children, but according to the calculations that we have done on the increase in prices, single households will, after housing costs, be spending half of the rest of their income on their energy bills, leaving them with about £6 a day to survive on—and I use the word “survive” loosely. The Scottish Government should be turning over every rock to find ways of dealing with this crisis, which, as I said at the beginning of the session, is being pushed on to families and the advice services that my colleagues have mentioned. However, there is only so much that they can do. This crisis needs to come on to the desks of the Governments, and they need to take immediate action, because lives are at risk.

Fiona Hyslop: I ask Frazer Scott the same question. Given that children have already been referred to, he might want to focus on single older people.

Frazer Scott: I echo some of what Chris Birt just said. I do not think that people are taking this seriously, or seriously enough—clearly, the UK Government has not done so. The woefully inadequate supports—and I use that term loosely—that it has talked about and identified are being eroded as energy prices and inflation rage, and they are being diminished in real terms. Once upon a time, the £140 warm homes discount, which might rise to £150, would have bought you considerably more comfort than it will buy you now; in fact, by the time we get to October, the £10 increase might well equate to a single day’s energy for an average Great Britain household. That is not a huge support.

The response has simply not been good enough thus far. We know who many of the most vulnerable people are in society, and you are right to suggest that this will be felt by older households in particular, not just over this period but for the length of time that the situation persists. You will have heard analysts predicting that these higher-than-2020 prices will be with us for at least two to three years, which is an incredibly long time. For households that had the luxury of being able to save, their savings will be eroded to the point at which they are no longer there, and the fact is that far too many households have no savings—nothing—in place and are struggling to budget on

a daily basis. Again, you are absolutely right to talk about older households.

10:30

I ask the Scottish Government to target better, where it can, those households where it knows that vulnerabilities exist. People who have essential medical needs and equipment that cannot be switched off are absolutely terrified of energy bills at the moment. Those people might be refrigerating medicines or they might have oxygen or dialysis machines. No one has offered such households a quantum of scaled support at this time; the same support is thinly applied universally. We need to do a lot better. We know that older households, people with medical conditions and single-parent families with young children will all struggle, but we are offering no scaled support at this time.

Fiona Hyslop: I come to Alastair Wilcox.

Alastair Wilcox: I echo Chris Birt’s remarks that the support that the Scottish and UK Governments are currently offering has, to a greater or lesser extent, been spread quite thinly. Therefore, although we are talking about large sums of money, by the time that that filters down to individual households, the impact of that help is quite diluted. Furthermore, although the energy crisis affects us all, it does not affect us all equally—some of us have broader shoulders than others. At the moment, we have not seen deep, targeted support from either Government.

Last week, large legacy suppliers gave evidence to a Westminster committee. They gave a unanimous view that the crisis is too big for the industry to cope with on its own and that they are looking for more serious help from the UK Government. We would absolutely echo the sentiment that the crisis is bigger than any one industry or player can fix by itself. However, that is not to say that the Scottish Government cannot do things by itself.

What we have seen so far from both Governments is that they almost seem to be waiting to see what happens before responding. It appears that the support that is being offered is being cobbled together at fairly short notice—it is almost like a knee-jerk response.

Last September, we wrote to officials to set out our expectations, given the market behaviour that we had seen during the summer and the costs arising from that in the long run. We were fully expecting that the Scottish Government would need to think about how it would support the most vulnerable consumers, possibly for a period of about 30 months. In response, we got a package of measures that would see us through the three-month winter period. There is a mismatch between

the scale of the interventions that have been announced so far and the scale and longevity of the problems and people's needs.

I should mention that since then, we have had additional announcements from the Scottish and UK Governments that extend the support further into this financial year. However, I think that it is widely accepted that, in the current context, we have not yet seen enough support from either Government.

The Scottish Government will absolutely not be able to fix everything, but there are things that it can do. If we think about the issue in relation to the four drivers of fuel poverty, we can consider how we can increase household incomes with the budgets that we have and whether we can do more with those budgets. We can also ask ourselves whether we can think differently about our plans for the devolution of winter heating benefits for example, one of which will be devolved this coming winter.

We can think about energy efficiency, too. I know that, last week, the committee heard about how important energy efficiency will be, so we can consider whether we can accelerate spending on that. Doing that would not just be good from a fuel poverty perspective; it would be a good thing from a climate change perspective. The committee will know that we are not just in a difficult place given the fuel poverty numbers—going into the pandemic, one in four households were in fuel poverty. I think that every current estimate suggests that, because of external factors, including the cost of energy and the cost of living crisis, we are moving in the wrong direction.

On what we can do in Scotland, can we turbocharge our investment in energy efficiency now, because that will save us money and carbon emissions now?

Let us not forget that we are also behind on our carbon targets and that we have been so every year since the legislation came in. We are behind the curve on fuel poverty and climate change, and we do not have new money coming forward for energy efficiency. We saw in the budget a 3.5 per cent increase in fuel poverty and energy efficiency spending for the Scottish Government, but that is a real-terms cut in the current climate.

Energy efficiency spending involves no regrets. Nothing is coming forward yet from the United Kingdom Government beyond its energy company obligation extension to 2026, and there is nothing really from the Scottish Government to accelerate its own plans to invest in energy efficiency. That is really disappointing for us, and we think that that could still be addressed to make a meaningful impact.

We do not think that the crisis will last only until the summer or even into next winter. There will be a multiyear period in which bills will be higher than we have expected them to be traditionally. If we invest in energy efficiency now, that will deliver benefits after benefits for everybody.

The other thing that is missing is really engaging with consumers about what they can do at an individual level. Behaviour change is a really important part of not just dealing with fuel poverty but addressing the issue of climate change. We have not yet seen from the Scottish Government a really detailed plan for how it intends to help consumers to understand how their own behaviours can be modified in a way that is helpful for them and for all of us to meet our statutory climate change targets.

I think that it was Dr Lowes on last week's panel who talked about simple things such as optimising boiler flow temperatures, which could save perhaps around 8 per cent of a bill. For context, that would be around £80 a year for a typical household at current prices. All the Opposition parties at Westminster that represent consumers in Great Britain have called for a VAT reduction on domestic fuel. For a typical GB gas and electricity customer, that would save around £95 a year at current prices. Those figures are in the same ballpark.

The advantage of optimising flow temperatures is that carbon emissions are also addressed. There is an absolute pressing need for us to do both—to reduce our emissions and to reduce consumers' bills. However, we have not yet seen any real engagement strategy from anybody—from the industry, other than one major supplier that I can think of, and certainly not from Government—for how we as individuals can take small actions that will add up to help, with a package of wider support, to keep costs under control. For us, that is a really easy win, and it could be done in the next couple of months. That would have a real, meaningful impact this winter and for the next few years.

Fiona Hyslop: Thank you. Those are very valuable and insightful responses. However, I am conscious that colleagues want to ask questions, so we might need to keep our remarks a bit sharper.

My final question is about international comparisons. If you work with other countries or you are aware of how other countries are handling the current crisis, I would like to hear from you about what lessons we can learn. I will go to Chris Birt and then to Frazer Scott on that and then pass back to the convener, if that is okay time-wise.

Chris Birt: I will make just a brief point. The UK has among the lowest out-of-work social security

support of the Organisation for Economic Co-operation and Development countries. That is one of the most important comparative figures that we should have in mind. That means that, if people cannot work or they fall out of work because they lose their job—that happens all the time—the income that they will have to survive on will be incredibly low. Hence the crisis. If people's energy bills go up by £1,000 while there is a massive real-terms cut in the social security support that is available to them, that creates a crisis. That is a fundamental weakness in our society that needs to be reversed.

Frazer Scott: One of the things that stands out most is that this is almost a hindsight moment. The countries that are managing best are those with much higher rates of energy efficiency in their homes. That is the answer. If we had done that faster and sooner, we would be more resilient at this time, like the Scandinavian countries, which have had efficiency as a higher priority for a lot longer and have moved a lot faster.

Beyond those countries, however, every country in Europe is struggling to deal with the issue. It is incumbent on us to do the best that we can do and to perhaps be an example of what can be done to intervene to support households in a meaningful way. I am still optimistic that we can do so, but we need the Scottish Government and the United Kingdom Government to work together to target and reach the people who will need help the most, because we have to maximise the lives that we can save this winter. I know that that sounds dramatic, but we lose more than 2,600 people in excess mortality every winter and, even before the pandemic, around 800 of those people died directly because of fuel poverty. I point out that fuel poverty has risen by 43 per cent. If there were a linear relationship between the two aspects, that would imply a 43 per cent increase in those fuel-poverty related deaths, but I fear that that will not be the case and that we are actually facing much more of a cliff edge, as was the case with the pandemic. We have inadequate information at this time, but I think that we could be looking at a catastrophic loss of life.

We can only do the best that we can at this time in order to save the most lives.

Natalie Don (Renfrewshire North and West) (SNP): Good morning. A lot of my questions have already been answered, so I will try to keep this short.

Could the Scottish Government implement any additional policy solutions that could mitigate the worst impact of the increase—and the expected further increase—in the price cap, or are there any actions that the UK Government could take to assist in the crisis, such as increasing benefits, which was mentioned earlier? Could the UK

Government go further in its dealings with Ofgem, for example by limiting the amount by which the cap could increase?

Alastair Wilcox touched on some of those points previously, so I ask Chris Birt to answer.

Chris Birt: On UK Government actions, as I said, I think that it is shocking and almost callous that social security levels are not keeping up with inflation when we are at the height of this price spike. The UK Government should be doing that at a bare minimum.

I also believe that targeting—I use that term loosely—support through the council tax system, as is done in England, is a bad way of doing it. The UK Government has at its fingertips the social security system, which is fairly well targeted at people on low incomes, and it could target support to low-income families in a way that is not really available to the Scottish Government. To me, it feels like what happened at the start of the Covid crisis. Lots of public health powers are devolved to the Scottish Government, much like powers on energy efficiency, fuel poverty and tackling poverty more generally. However, this is a national and international crisis in which we have to admit that the UK Government holds a lot of the most significant levers, so it is incumbent on it to act.

That said, although it is perfectly reasonable for the Scottish Government to point that out, that does not keep people's heating on. It would be good if the Scottish Government can look to other ways of helping, such as topping up the child payment, increasing the winter fuel benefits and, as it did during the pandemic, targeting funds at the council tax reduction scheme, because most people who are on that will be on very low incomes. The sort of support that is available through the Scottish welfare fund is another way of getting money into the pockets of families who need it the most.

I should say that ensuring that we have additional money in crisis funds such as the Scottish welfare fund is an admission of failure of wider policy, because that money is meant for people in a crisis who have reached the end of the line in terms of the other support that is available. The UK Government is guilty of that. Do not get me wrong—sadly, we need that and we need a lot of it—but that is a failure and, if we want to avoid being in this position again, we should be doing some of the things that Alastair Wilcox talked about in relation to energy efficiency.

10:45

We have an opportunity here; our climate goals and our poverty-tackling goals should align. We should be desperate to increase the energy efficiency of our homes, because that reduces

costs and emissions. As I said to Fiona Hyslop, I do not feel that we are quite seizing the challenge that is in front of us just now.

Natalie Don: Frazer Scott said at the beginning that it is not going to be a choice between heating or eating; it is just going to be a fact that people have no money. We all have real concerns about how that will impact people's everyday lives.

We have people on prepayment meters; if you have no money, you have no money to put into a prepayment meter. I would like to see more advice coming from suppliers on the differences between debit meters and prepayment meters. Often, information from suppliers is extremely complex. Prepayment meters do not work for everyone and there can be real complications when people try to change from a prepayment meter to a debit meter; there can be credit checks. Would you like to see more from suppliers to assist people who will really struggle? We are expecting people to get into debt because of this; perhaps suppliers could be working with people and giving people a little bit more leeway over the coming months, which will be extremely hard.

Frazer Scott: You are right to point out that prepayment meter households have always struggled considerably. There are a multitude of reasons why someone may be on a prepayment meter. They may have been forced into that situation because of debt. Some people may have chosen to get a prepayment meter because it afforded them a level of control. That was when prices were suppressed, whereas now, prepayment meter households pay more than direct debit households. People with credit meters pay less than people with prepayment meters. There is a premium for prepayment meters—for paying in advance. The regulator believes that that is justifiable, but we do not share that view; there should be different protections for people with prepayment meters.

In the paper that we have submitted, one of our colleagues at the Fuel Bank Foundation has tried to demonstrate the difference that there would be between a direct debit household, which can equalise costs across 12 months, and a prepayment meter household, which needs to pay when it needs to use. When you get to the winter months, a prepayment meter household could end up having to require double the amount of cash that a direct debit household would need, simply to achieve the same levels of comfort in their home. For many, that is simply an unaffordable point, especially as these prices are ramping up and we expect them to ramp up further in October.

I would like to see a lot more support being given to prepayment meter households. You are right that it is not easy, because of the combination of the different kinds of prepayment

meters that are still in existence in people's homes. We did research about a year ago with our colleagues at National Energy Action in England and with the support of Smart Energy GB to try to demonstrate the financial benefits that could be derived for both suppliers and households if households moved to smart prepayment meters, making it easier for them to top up, for example, and making it easier for them simply to move. However, as debt builds, and as there are limits on the amount of debt that people can have at any one time, which holds them to a supplier or to a place in the system, it will be very difficult for people to get a better deal, because there will not be any better deals out there.

In our paper, we point out that this is a time where almost all of us are on the same rates for our energy, because we have come off fixed deals. Pretty much all of us are moving towards the standard variable rate, which is capped and therefore protected. This is an unprecedented moment—the fact that the market now has no differentiating elements. Every supplier is, in essence, offering the same price. Suppliers are not mad keen to take new customers—why would they be?—and why would customers move? People move because they believe it to be a better place to be, but none of that exists at this time. I would like to see suppliers work harder to support their customers, recognising the complexity.

We have to move a lot faster on some of the technological changes. We are behind on many of the things that we have been talking about. We are behind where we need to be in order to be much more resilient to such moments. I would like to see considerably more effort put into supporting prepayment meter households at this time and some genuine recognition of the difference that there is between their experiences as pay-as-you-go customers and the experiences of others who pay differently. That does not exist at present.

Natalie Don: Thank you.

The Convener: Before I hand over to Jackie Dunbar, I say to our panel members that, as we still have quite a few members to bring into this very important discussion, if you keep your answers fairly concise, that will mean that we can bring in all members.

Jackie Dunbar (Aberdeen Donside) (SNP): Good morning, panel. As Natalie Don said, you have dug down into a lot of what we were trying to get out of today's session, so I will just ask a small supplementary. Frazer Scott might be best placed to answer this question. It is about the support that has already been announced, which you have explained. The Scottish Government has increased the capacity at Home Energy Scotland by 20 per cent. What are your views on that? Is it enough and, if not, how much would be enough?

Frazer Scott: It would be hard to say that it is enough at this particular time, when we are seeing a 43 per cent increase in the number of households that are in fuel poverty, which does not, in itself, reflect all the people who have heightened concern at present. The demand on services is going through the roof for all the organisations that we work with in our membership, and I am sure that that is very much the same for citizens advice bureaux—Alastair Wilcox can touch on that.

Doubling the support that is available will go some way, but I think that we all feel that it will still be inadequate. We have not seen enough multichannel supports. There should be really good support for households that self-help, or can self-help. The more those people go to the other services, the less likely it is that the most vulnerable low-income households will be able to go there and get the support that they need, simply because the services are full meeting the demand from households that have never experienced such a situation before.

I am concerned that we have not got the right level of support available in the different elements and dimensions. There needs to be national support but also local, trusted, specialist face-to-face support for people in vulnerable households who perhaps have medical conditions, because they trust those organisations the most. We need a much better system than the one that we have now.

Jackie Dunbar: Thank you. I will just hand back to the convener, as time is short.

The Convener: Thank you, Jackie.

Liam Kerr: It is powerful evidence that we are hearing and I am grateful to the panel for it. I will direct my question to Alastair Wilcox. I heard you talk earlier about the support requiring to be more targeted. Following on from that, the Scottish Government recently sought to address some of the issues that you have been telling us about through a blanket discount to council tax. Do you think that that is the most targeted or best way to assist the people who are most in need?

Alastair Wilcox: Even the Cabinet Secretary for Finance and the Economy recognised that it was an imperfect system. That was in recognition of some of the criticisms that were being levied at the Chancellor of the Exchequer's similar scheme, albeit that our council tax reduction scheme works slightly differently in Scotland, which works in our favour when it comes to designing something that is a little bit better targeted.

I think that it comes back to the question of sufficiency. Perhaps at the time that those commitments were announced, they were deemed to be proportionate to the level of need. Obviously,

events have changed, not least the horrific events in Ukraine and the pressures that that will put on markets and the uncertainty that will result in terms of volatility, particularly in the energy industry.

Since the committee took evidence from last week's panel, we have seen even more analysis from Cornwall Insight, which suggested that the volatility in the wholesale energy markets is likely to be significantly elevated for at least the next couple of years. That tends to confirm the suggestion, which we have been looking at for a while now, that this is not going to be just a short-term crisis.

What we do not have yet is something that takes us beyond the current financial year. We do not have anything that has responded to what has happened since those spending commitments were announced back in about February. Therefore, what we have now is a lot of money being spent quite thinly but nothing yet that comes on the back of that to target at those who might need that little bit extra help. That is what is missing and what is obviously next to come. We will be looking for both the Scottish and the UK Governments to think, "We have done the big package of measures, but it is clear that that will not be enough. What more can we do and how can we direct it in a meaningful way?" We do not have that deep targeted support at the minute.

We would also probably look to use a different methodology. We would be very open to having a discussion with the Scottish Government about how best it could get that support to the people who need it most, bearing in mind the support that has already been made available through the UK and Scottish Governments up to this point.

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

Monica Lennon: Good morning to the panel. I would like to raise the issue of households at risk of self-disconnection or self-rationing their energy use due to unaffordable fuel costs. I recently had a response from the cabinet secretary, Michael Matheson, who has confirmed that an additional £10 million will be available for the fuel insecurity fund to deal with those issues.

My questions are for Alastair Wilcox first and then Frazer Scott. Are your advisers hearing more about self-disconnection and self-rationing? How much of a risk is that? Although I am sure that the £10 million is welcome, is it going to be enough to cover that problem?

Alastair Wilcox: The answer to your first question is yes—we are absolutely seeing more of that. If we look at the numbers on the advice that our bureaux are giving out in communities across Scotland, we are seeing about 2.5 times the level

of demand compared with pre-Covid levels, in relation to the affordability challenge for people on prepayment meters and the risks that that brings if sufficient supports are not made available or people cannot access that support for any one of a number of different reasons. That number is even higher than the peak numbers that we saw during Covid.

Our extra help unit provides a service to vulnerable consumers across Great Britain. Its number of priority cases, which are generally customers who have disconnected already or are at imminent risk of being disconnected, tend to go up during the winter months, and of course we saw that this winter. However, in January to March this year, the number of priority cases was 126 per cent higher than the year before—it more than doubled. Then, in the first few weeks of April, after the new price cap came in, we saw an enormous spike in that demand.

It is very real. Even though suppliers say that they have not yet seen it in their very high-level data, in terms of the affordability challenge, if we get to next winter—when we are back into the heating season and people are demanding more energy to try to stay warm—and we have another price rise to come, we can only speculate how difficult some of those choices are going to be for people and how much support is going to be made available.

You are absolutely right to highlight the support that the Scottish Government has made available in the latest round, and the fuel insecurity fund is another £10 million. We would just reflect on the fact that this is now the third round of funding for that support. Each of those previous rounds has involved about £10 million, and has lasted for only three months. Although this package of support is supposed to see us through the financial year, it is fairly obvious that, with higher prices to come, that funding is not going to go as far as it has in the past. Either that will leave a lot of households getting less support—because we have to spread it more thinly—or we will have to say, basically, that there is no more money left.

11:00

That is not a situation that will lead to good consumer outcomes and I hope that it can be addressed at some point over the summer—that we can find the political will to find the money to boost that investment in those crisis funds because, unfortunately, they are going to be necessary over the next period of time.

Frazer Scott: Across the country, there is much more anecdotal evidence of the increase in the amount of self-disconnection and the number of people at risk of that, particularly in our rural

communities, where tremendous amounts of money have been mobilised to support people in such moments of crisis. However, what is very clear is that those bits of crisis support are now worth a lot less, because energy has nearly doubled in price. The level of breathing space that that gives to people who need it is shortened. Emergency credit for prepayment meters is of the same value as a year or so ago, but energy prices have doubled. Therefore, emergency top-ups simply do not last as long as they once did. Even the £49 fuel vouchers that people can get last for only half as long as they used to do, simply because prices are rising.

Although any financial support is absolutely welcome, £10 million will not touch the sides of the issues that people will face, and an incredible number of people will self-disconnect because they simply cannot afford not to; their incomes are not rising and benefits are not keeping pace. The only logical conclusion is that domestic consumption will fall for many people, and the reason for that is that it is unaffordable.

Monica Lennon: I will bring in Chris Birt. We are all keen to consider how the crisis will exacerbate inequality in our society. Just to give an example of the kind of inquiry that MSPs are getting right now, I have been contacted by someone who is struggling to afford to charge up their mobility scooter, so I have been asking the Scottish Government what support is available.

Frazer Scott talked about people who have additional medical needs and who need to charge equipment at home. Those are the kinds of practical issues that people are raising. In many areas, you can go out and charge your electric car for free, but people cannot even get out of their house with an electric mobility scooter. That is the scale of the challenge that we face.

When it comes to social security policy, Chris, you have talked about what needs to be done, but can you bring a bit more sharpness to the immediate actions that could be taken? It makes no sense for people to be stuck in the house and not able to get out and spend money in the local community. They cannot support the high street, and they become more isolated. What needs to be done to knock together the heads of Government ministers, so that, across the country, we can help people to get out and live a life independently and with dignity? People are telling MSPs that they cannot get out with their mobility scooters.

Chris Birt: There is a lot in your question, but it is a vital point. I could reel off 100 heart-breaking stories about what we are hearing—[*Inaudible.*]—right temperatures, and people with respiratory illnesses not being able to switch the heating off because if they get too cold, they get sick. There is a practical element to that because it means that

they might then require national health service treatment and then social care, which are both expensive and already under enormous pressure. It therefore does not make any sense. This crisis should make us stop and think about those issues.

The Covid pandemic shone a harsh light on the inequalities that exist in Scotland. You were more likely to die from coronavirus if you were from a poorer background. The cost of living crisis is a crisis only for those on low incomes. Everybody else might feel it a bit, but we are not in the same boat.

It is very welcome that the social security system in Scotland recognises that it is an investment in our people and that it can reduce poverty. That should be obvious. However, we need to look at how disability assistance can do more than simply provide a more dignified system than the one that the Department for Work and Pensions provides. There seem to be positive early signs that it will do that, but how can the level of payment support people and give them dignity in their lives by providing them with the independence and quality of life that we all deserve?

Those are the debates that we need to be having. Otherwise, every six months or so, another crisis will come along, and people such as me will complain about it. I do not want to be complaining about this. I want to see a Scotland where everyone lives in dignity and where poverty is a thing of the past. We need to use this crisis to push major change in our society.

Monica Lennon: Thank you, Chris. I am aware of the time, so I will hand back to the convener.

The Convener: Thank you, Monica. Our final questions will come from Mark Ruskell, who is joining us remotely.

Mark Ruskell: It has been a sobering and moving session. I want to try to wrap things up. We have had a lot of information from you, but what should the Scottish Government be doing in the next three months? We have a window of opportunity in the summer, when energy usage will inevitably be lower because of the weather, but after that, with the cap coming off and energy use going up in the autumn, people are going to face a huge crisis.

What should the Government be doing to reduce demand for energy over the summer? What should be the priorities? What programmes should the Government be putting in place to ramp up the capacity to provide advice and support quickly and ensure that it gets to the people who really need it to reduce their bills? You have covered some of that, but I am looking for practical measures that the Government should be focusing on in programmes that could run over the summer.

Frazer Scott: I will try to keep my answer brief. As Alastair Wilcox said, there are four drivers of fuel poverty and we need to address them all at this time. I would like to see an emergency response to insulate the homes of as many low-income, vulnerable people as possible in the next six months in order to lessen the impact of the price rises that have already taken effect and those that are likely to take effect from October. An emergency response is needed. I would like to think that we were about to mobilise the army to go out there and do that to people's homes at a scale that we have never seen before. That would have a tremendous impact on people's lives. I would like to think that we could mobilise that.

On the income side, the Government could respond through things such as the child payment and child winter heating assistance. We could make improvements there to target people who need more help. I would also like the Government to reach the most vulnerable people in society more quickly by supporting local, trusted organisations. I would love to see it remove the burden of the dreadful annual funding cycle, which inevitably creates a hiatus, often at the worst possible time, as it has done this year. It has been dreadful.

The Scottish Government should also continue to work with the UK Government, as we do, on changes of a strategic nature to the prices that we pay for our energy to reflect fairness. The VAT burden should be removed, because energy is essential. For most people, it is not a luxury good in any shape or form, but it is treated as such. We are about to pay several hundreds of millions of pounds in additional VAT to the UK chancellor because of rising energy prices. That is not fair, and neither are the excessive and obscene profits of many of our oil and gas companies. Many of the levies that are built into our energy bills should be moved over into general taxation, which is about the ability to pay.

If the Scottish Government pressurises the UK Government on all those fronts, it will begin to make a difference and address the inherent inequalities that we have.

Mark Ruskell: Is that rapid deployment of energy efficiency measures best done through ECO, the energy company obligation, which can work through the registered social landlord sector, or is there another scheme that should come in alongside that? Last week, we heard about people who are just about managing, who might not be on a social rent but are now being hit—people in working poverty who are being hit hard with the cost of living crisis. Do we have a mechanism ready to go so that we can start to do that work, or does work still need to be done on that?

Frazer Scott: We have a good framework in place; we just need to mobilise it at a scale that we have never achieved before and find a way to finance it. I am well aware that there will be capacity issues among organisations, including the insulation organisations, but those can be overcome with the right kind of signals. With signals of longevity, investment will come forward to meet the ambition, but only where all the measures are being brought together.

We need ECO to work in conjunction with area-based schemes, and we also need legislation on the private rented sector, where many fuel-poor vulnerable people live who are not afforded anything like the same levels of support or access to finance as is provided to home owners or indeed through registered social landlords.

There is more that we can do. We have the right kind of framework, but the scale has to be so much greater. Warmer homes Scotland is a fantastic programme for the people that it helps, but it needs to help many more people. It celebrated having supported 25,000 people, but 600,000 people are in extreme fuel poverty.

Mark Ruskell: Alastair, could you comment on the practicalities of the next few months?

Alastair Wilcox: On the actions that the Scottish Government can take, one thing that is entirely within its gift, budgets accepting, is to consider increasing this year's budget for schemes such as warmer homes Scotland, potentially using it as an opportunity to expand the eligibility criteria. As Frazer Scott said, there are a lot of people that warmer homes Scotland does not touch, and the criteria have been set in such a way that they target most of but not all the types of people who, under the legislation, are most likely to be considered liable to require an enhanced heating regime.

Is there something that we could perhaps look to do that pulls eligibility out of the fuel poverty definition and the legislation around fuel poverty in Scotland? Unless they are disabled by it, somebody with a long-term, chronic health condition is currently excluded from accessing warmer homes Scotland so, with some additional money, could such a measure be used—even just in the short-term—as an opportunity to show that we are grasping this crisis with the seriousness that it deserves?

As I think I said before, we absolutely need to spend more on energy efficiency to meet our stretching and ambitious targets. We have done some analysis ahead of the budget in the past few years, and we have shown that the Scottish Government's spending commitments unfortunately fall short of delivering its targets. We are therefore already playing catch-up. This is an

opportunity for us to say that we are behind the curve and we need to turbocharge things. There has never been a better time than now to think about how we do that.

Who would we best target that support at? Would it be at people who are likely to be at home, or people on low incomes who are currently falling through the gaps in the support that is available because of tight budgetary constraints? If we can mobilise the funding and think about how best to target the support, that could be a good approach.

Another low-cost idea would be to work with partner organisations to start some public engagement. I appreciate that we are talking about small gains through behaviour change, but with small gains on bills and on climate change, everybody wins over the piece. When it comes to the little actions that we can take, it would be useful to run a public engagement campaign on the old advice about ensuring that our thermostats are not turned up too high, for instance. There are also some more technical measures such as optimising flow temperatures in boilers, which your panel last week discussed, and they do not cost anybody any money, other than the money that is required for the messaging. That would be really useful.

11:15

My final point is about setting us up for the longer term. Last year, Citizens Advice Scotland was not alone in being quite disappointed with the fuel poverty strategy when it was finally published. When we gave evidence to your colleagues on the Social Justice and Social Security Committee, we said that we felt that the Scottish Government needed to do more work to ensure that the strategy is fit for delivering on the stretching fuel poverty targets.

Stakeholders across the industry are keen to work with the Scottish Government to address the areas in which there might be gaps or shortcomings. Grasping the opportunity to do that and asking how we can do better would be a good response to the crisis, because, on fuel poverty numbers, we are going to be in a worse state coming out of the crisis than we were going into it.

We need to think about how we set up a framework that will give us a springboard to get back to where we want to be. If we simply continue with the strategy, and say, "Well, it'll do us for five years", we will not be where we need to be to deliver on our 2030 targets on either climate change or fuel poverty come the end of the current session of Parliament. I do not think that anybody wants us to be in that position, so we need to use the opportunity now to get ready for what happens next, when we come out of the crisis. From

Citizens Advice Scotland's point of view, that would be a good thing to do.

Mark Ruskell: That message is heard. Chris Birt, do you want to add anything?

Chris Birt: Frazer Scott's point about the scale of the warmer homes Scotland programme is vital. We should be focusing energy efficiency help on those with low incomes, because that will enable us to meet our climate ambitions and reduce poverty. However, it is not enough to support 25,000 people in the context of 600,000 people in fuel poverty.

In addition, with regard to the immediate challenges that people face, even before we come into winter, we know that putting cash in people's hands makes a difference. We have heard of people who are not going to food banks because of the Scottish child payment. That is a good example of a successful policy that is doing what it is supposed to do.

This is a challenge to the Scottish Government and to MSPs across the political spectrum. If the UK Government does not provide additional funds, it is time for the Scottish Government to have a hard look at its budget and at what we need to spend this year. Is it time for us to reprioritise spending to ensure that families across Scotland are not going cold and hungry? That is the challenge that the Parliament faces, and the people of Scotland deserve to have it reach to meet that challenge.

The Convener: That brings us to the end of our allocated time. I thank the witnesses for their comprehensive and insightful contributions to our inquiry into this very important issue.

I suspend the meeting briefly for a change of witnesses.

11:17

Meeting suspended.

11:19

On resuming—

The Convener: Our second panel this morning is made up of energy producers and suppliers. Keith Anderson, chief executive officer, ScottishPower, is joining us in person—good morning, Mr Anderson. I also welcome to the meeting Dan Alchin, director of regulation, Energy UK and Ross Dornan, market intelligence manager, Offshore Energies UK, who are joining us remotely. I am sorry that we are running a bit behind schedule.

We will move straight to questions. First of all, how can we best balance the cost of living crisis with our approach to net zero? How can we best deal with the cost of living crisis in the short to medium term without compromising strategic emissions reduction targets? In other words, to what extent will the energy price crisis undermine or accelerate the transition to net zero?

I address that question first to Keith Anderson and then to Ross Dornan and Dan Alchin.

Keith Anderson (ScottishPower): Thank you, convener. The two issues should and can be kept separate. The net zero targets are incredibly important, and what is going on in the gas market should not divert us away from them. In the medium to long term, the move to net zero—or, as it has been described, energy security—will help us to manage the gas crisis by moving us away from using gas and taking away its predominance in relation not just to the price in the gas market but in the way that that feeds through to impact on the electricity price, too. Everything that we do as a country to move towards net zero will help move us away from a reliance on fossil fuels and will help to manage and bring down the price of energy in the long term—it will reduce carbon emissions and provide greater security.

As for the short term, the impact on consumers of current gas prices needs much more direct intervention and action. We are seeing a big issue coming through the system with the price cap moving from £1,277 to £1,971, and all the indications that, with the continued trend in the price of gas in the market, there will be a further price rise in October. The additional cost that is coming in October gives me real concern when I look at it from a customer's perspective, and, as I have said before, it is pushing the issue to a size and scale beyond anything that ScottishPower as an individual company can deal with and beyond what the industry can deal with on its own. It clearly puts it at a level that requires the Government to intervene and support the market and customers.

About a week ago, we opened a new phone line for customers who had concerns about paying

their bill, and in that first week alone, we have had 8,000 phone calls from people with serious concerns about what they are going to do and how they are going to manage. Although we are not seeing any impact on the numbers in debt or any impact in hard financial terms of what this is doing to customers, it is clear that there will be an impact. We are already seeing the levels of anxiety and concern in our customers going up quite significantly with regard to what they will do and how they will manage.

I suggest that there needs to be a much more significant and structural shift in the policies that Governments have brought forward to deal with the issue. The central proposal that I would put forward is the creation of some form of deficit fund that would allow £1,000 to be taken off the bills of those who will be hardest hit by the price increase. Those people might be defined as those on warm home discount, in fuel poverty or vulnerable, and £1,000 could be taken off their bill, which would put their bills back roughly to where they were before the gas crisis and would allow them to manage during this period. The money could be put in a fund underwritten by the Government, and then be repaid over, say, 10 years, given its size and scale.

There is an estimate that, by the time that we reach October, as many as 40 per cent of homes in the UK could be deemed to be in fuel poverty. We would be talking about £1,000 for 10 million homes, which is £10 billion. It is a significant amount of money. That is why I say that the level of intervention needed has gone way beyond what I can do and what the industry can do on its own. It requires the Government's backing. The cost of that would be spread over 10 years so that the impact was taken away in the immediate term.

The really important point is that that situation should not be considered in any way, shape or form as a reason not to push ahead with achieving net zero and energy security because that will help us all in the medium to long term. Wind is the cheapest form of generation in the system. The more that we invest as a country in the future of wind, whether onshore or offshore, and in solar power, the more we will bring down the cost of energy and the better and stronger we will make the energy source and security.

The Convener: Thanks very much for that comprehensive answer. It is encouraging to hear your view that energy security, decarbonisation and achieving net zero are consistent goals.

Ross Dornan (Offshore Energies UK): Thanks for the opportunity to meet with you all. My view is that the situation underlines how difficult the transition is and how it could play out. There are dynamics between sustainability and emissions and affordability and energy supply security.

Addressing all of those is really challenging and requires some really difficult decisions to be made and fundamental conversations to be had.

I emphasise the point that the offshore sector—the oil and gas sector—is committed to a net zero future through the North Sea transition deal. We are committed to playing our part in a fair, managed transition; we will have an important part to play in making it a reality.

To come back to your question, convener, it is important that we take the current situation as an opportunity to accelerate the transition to net zero rather than slowing it down. The cause of the issues at the moment is our exposure to international commodity markets. Energy is at the heart of everything that we do in our economy, so our exposure to trends such as those in the energy markets fuels inflation. That is creating a horribly difficult situation for many people throughout the country. I listened to the end of the previous panel's evidence, in which that was evident.

We need real strategic thinking to address the short-term and longer-term issues. Here and now, consumers need support. I am not the best person to comment on support levers, but I suggest that consumers need cash to help with bills, as well as payments in capital support to help to finance the required changes and reduce oil and gas consumption in the future. I refer to measures such as supporting the cost of better home insulation.

In the longer term, we must ensure that a cost of living and price crisis now does not become a supply crisis in the future. In Scotland and the UK, we are really lucky to have real diversity of energy sources: from oil and gas to wind, hydrogen potential and tidal power, we have it all here. We are the envy of many of our European neighbours. It is important that we have a framework that attracts, encourages and enables investment across that energy landscape. Our system is becoming more and more diverse and will become even more diverse in the future. We must enable and attract investment across that diversity.

We have to think long term when it comes to that, not just about the here and now. We need support here and now, but we also need to address the decisions that need to be made in the longer term that will accelerate the diversity of our energy resources, which includes investment in oil and gas, as I am sure we will come on to. That will help to reduce our exposure to international markets while helping to address security and, in turn, affordability for consumers.

The Convener: Thank you very much for those remarks.

11:30

Dan Alchin (Energy UK): I agree with a lot of what we have heard. The journey towards net zero is consistent with a long-term solution to the crisis and to avoiding any future repeat of the situation.

I agree with Keith Anderson about the short-term crisis. Witnesses on the previous panel clearly showed that the crisis is too big for the supply sector to handle on its own and requires further action from Government. I think that we will come on to that later.

I hope that the crisis will also give us a steer to accelerate the transition. I note the comments that we just heard about energy efficiency. There are real opportunities to push further, go faster and make a difference on net zero in the short to medium term and, in the long term, on affordability.

The Convener: I have a brief follow-up question. We have a lot of ground to cover, although I appreciate that your opening remarks will have covered some of the issues that my colleagues want to bring up.

I am going to ask you all for a forecast. What is the outlook for energy prices in the next 12 to 24 months, based on what you are seeing in the market and in supply chains? How long should we expect to see elevated prices? I appreciate that it is difficult to forecast that, but some analysis of general trends might be useful. We will go in the same order: Keith Anderson, Ross Dornan and then Dan Alchin.

Keith Anderson: If we look at that in the context of a customer's bill, the price cap has gone from £1,277 to £1,971 and current projections for October are that we could see the cap move to around £2,500 or £2,600. We are only part of the way through the indexation period, which is the observation period during which the Office of Gas and Electricity Markets looks at the market prices that feed into the calculation of the cap. That can change, move or fluctuate all the way up to the end of July.

As you know, that is being driven by gas prices. In the past few months, we have seen gas prices go from what used to be a norm of 40p or 50p per therm up to 800p per therm and back down to 300p: there has been massive volatility.

The volatility has calmed down a little from those huge spikes, but the price is settling somewhere between 150p and 200p per therm. If you ask market analysts, they can see that lasting for nine, 12 or 18 months. I am always reluctant to predict what will happen to gas prices, which involves guesswork and trying to understand other geopolitical forces, but the gas price is showing no sign of coming back down to its historic norm.

Most people would say that we are unlikely to see it come back down to the historic norm in the next 12 to 18 months, which is why they think that the price cap will move to those levels in October.

The Convener: I appreciate those thoughts, given that it is so difficult to predict.

I would welcome Ross Dornan's thoughts, and then I will bring in Dan Alchin.

Ross Dornan: It is hugely difficult to predict those things. Current market dynamics and the challenges that we are facing underline that. The swings in gas prices are at levels we have never seen before. If we think of gas being priced in pence per therm, we are used to talking about those prices in the 10s, 20s or 30s of pence per therm, but now, as we just heard, we are talking about £5 to £8 per therm. The dynamic is completely different to anything we have ever faced before.

Signals and indications from the market probably point to a prolonged period of high energy costs. Futures prices, which predict the cost of the delivery of oil and gas months or years ahead, indicate a period of prolonged higher prices.

We are coming into the summer, which coincides with lower domestic energy use. However, a strange thing has happened recently in the gas market, which is that the summer gas delivery price has been higher than the forward winter gas delivery price. We do not normally see that. All that volatility and the unusual things that are happening in the market points to traders struggling to price in the uncertainties around the world, a lot of which are a result of geopolitical events.

As we look to six months in the future—or even less than that—there seems to be a consensus that we are heading towards a further increase in the domestic energy price cap. As we come into winter, that will coincide with a period of higher domestic energy use. We are looking at challenges for a prolonged period. A lot of the uncertainty is because of what is happening with Russia and Ukraine; even if there was a rapid de-escalation in Ukraine, there would be a lasting impact on the markets. The direction of travel for many major energy consumers, especially those that are reliant on Russian energy supplies, is clear: they are looking to move away from and replace Russian supply. Replacing that supply brings challenges in the international markets—competition would increase significantly, which would heat up the market and cause prices to rise—so we have to make sure that we have a secure supply that is able to compete. All of that points towards a more prolonged period of challenging prices.

Dan Alchin: I agree with a lot of what has been said. None of us has a crystal ball and none of us can predict the future, but it is fair to say that there was a feeling earlier this year that it would be a short-term problem that could be addressed in 2022. However, it is clear that it will last longer than that and be more of a medium-term issue. We also need to recognise that there are already costs associated with the crisis, such as the costs of supply failure and the Government's energy bill support scheme, which will mean that the impacts of the crisis will be felt by consumers for many years to come, even if and when prices start to come down.

The Convener: I thank Dan Alchin and our other panel members for setting the scene so well.

Fiona Hyslop: I want to address energy market reform. I will go to Dan Alchin first. You have said that the issue will be a prolonged one, to the medium term. Do you think that the situation makes the case for accelerated energy market reform? What needs to be done to make sure that we have a secure, affordable and sustainable energy market? Should the marginal generation technology continue to set the price? Obviously, that is currently gas. What other options are there?

I know that the topic is huge, but we are looking at strategic solutions. Will you set out what needs to be done and when it needs to be done?

Dan Alchin: I am not necessarily sure that I have all the answers. As you have said, it is a ginormous topic, and it needs to be considered carefully and properly alongside thinking about what we can do in the short term. It is therefore hugely welcome that the Westminster Government announced in its recent energy security strategy that it will be taking forward its review of electricity market arrangements. That is one of the topics that we will have to explore and carefully consider. We have to think about not only its impact on the electricity market, but what it means for consumer pricing, the just transition and fairness across the piece. It is welcome that that work is beginning to be undertaken, but it is being undertaken alongside a review of the retail market arrangements that have a direct impact on how consumers engage in the market.

However, unfortunately, I do not have all the answers to those questions as of right today.

Fiona Hyslop: Can Keith Anderson answer that question, particularly in relation to Scotland's energy supply?

Keith Anderson: I will look at the energy market as two bits—the electricity market and the gas market—because it is important to make that split.

I am not too sure that any method of reform, other than moving to net zero, will tackle the issue in the gas market, because the gas price is a straight pass-through of wholesale gas prices. Any retailer in the market buys its gas from the wholesale gas market, which is internationally driven, and there is a straight pass-through down the pipe with the associated price, which results in the end price to the consumer. The way to deal with such volatility and with the future impact on people is to move away from gas. The net zero strategy, the heat pump strategy, the electric vehicle strategy and so on will take us away from gas.

It is understandable that people often want to focus on why the price of gas is hitting all the electricity costs. That is because gas is used in combined cycle gas turbines to produce electricity—they are gas plants that make electricity from burning gas. That sets and dominates the wholesale power price.

The position will naturally change over time, because we are moving to net zero, so more and more fixed-price generation will come into the system. What do I mean by that? The UK Government is about to run the next contracts for difference option, and all the wind farms—whether they are onshore or offshore—and all the solar plants will bid for a contract at a fixed price. Even if the wholesale electricity price is higher, the generator will get only the fixed price, and the additional income will, in effect, go back to the Government and the sector. The more we move along that route, the less impact and dominance gas will have in setting the price.

Other things can be done in the short term, such as looking at using a different marker or a different way of calculating the wholesale price for power, but that would need significant market reform. The way in which power is bought and sold on the market drives it towards the gas price and the price of gas generation, because customer demand must be matched with access to power. It is difficult to do that directly with a wind farm, because of wind's variability. A wind farm tends to sell its power into the wholesale market and buy back fixed power at a fixed price, which means that the gas price ends up having an impact on electricity. A significant bit of work would be needed to look at whether that link could be broken earlier than will happen naturally through the build-out of renewables. That would be a difficult thing to do.

Fiona Hyslop: I put the question to Ross Dornan. What does he think about decoupling gas from electricity in the market? How soon can that be done? Does that process need to be accelerated?

Ross Dornan: To be honest, energy market reform is not my area of expertise, but I could consult my colleagues and provide a more comprehensive view offline. I will give reflections on what has been said.

Change is needed to allow us to move to a more diverse and more renewables-based energy mix that allows us to address the dynamic between sustainability, cost and supply security more effectively than it is being managed at the moment. There are business models, commercial models and regulatory models that would allow us to move forward at pace with more offshore wind development, hydrogen developments and carbon capture and storage developments, which would allow us to enable hydrogen production.

It is important to look at electricity and other energy. Electricity is something like a fifth of all the energy that we use in the country. When we think about gas, the issue is not just about electricity. I do not have statistics specifically for Scotland, but I think that those for the UK are similar to those for Scotland, and about 85 per cent of all UK homes are heated by gas boilers. To reflect briefly on the oil side of things, almost all our transport in the UK—95 per cent or so—is fuelled by oil-based products.

We can address electricity, but we have to go a lot further than that if we really want to decouple the impact of the commodity markets from our energy system, because they still have a significant, driving influence on transport and heating, which are by far the largest energy users in Scotland and across the UK. It is important that we look at the issue holistically. Good progress is being made on electricity and more progress is coming, but we need to do more on heating and transport if we are to move away from those market impacts.

11:45

Fiona Hyslop: My second set of questions relates to wider energy markets and the post-Brexit UK energy market. I should emphasise that energy markets are reserved to the UK Government although, post-Brexit, they remain closely aligned with the European Union energy markets. I put my questions first to Dan Alchin and then Keith Anderson. Can domestic energy market reform happen without wider EU reform? What do you think the EU is likely to do in relation to energy market reform? Will that be accelerated by other resilience issues, such as the security issues in relying on Russian gas and the need for the EU to rapidly embrace renewables? What is your insight on reform and the security of renewables from European countries, including the potential for Scotland to help to provide that impetus?

Dan Alchin: We can move forward with market reform independently, but we have to be conscious that the markets are interconnected: electricity flows both ways, and we are part of a global gas market. Therefore, when considering reform of our markets, we need to be conscious of changes being made elsewhere, what impacts that will have on the decisions that we have at our disposal, and the speed at which we work. It is possible to act independently, but we cannot do it in a vacuum. We need to be aware of, and responsive to, the changes that are being made in the wider markets which have impacts on ours.

Keith Anderson: I agree with much of what Dan Alchin has just said. Our markets are commercially connected as well as physically connected: there are gas pipes and electricity cables between the UK and Europe. The power and the gas flow across those markets.

Countries operate different commercial structures in terms of the different incentivisation mechanisms. There has been a co-ordinated effort to ensure that there are no big commercial advantages or disadvantages in relation to the way in which the power flows. The UK's methodology for incentivising investment in renewables is different from that of many other European countries, but there is nothing preventing us from changing that and doing it in a different way. The contracts for difference mechanism, which has been particularly effective in driving the massive acceleration in investment in offshore wind and its future, is a UK-specific mechanism.

If we want to drive faster the move away from gas through the roll-out of heat pumps or from the use of diesel and petrol through the introduction of EVs, those policies can be driven from the UK, including through the devolved Administrations. We can do that without having to be too concerned about what other countries are doing—we can fund and incentivise it in different ways.

I have no doubt that the hydrogen market will be an international market as well. However, there is a lot that we can do in the UK to start incentivising customer and business pool demand for the use of hydrogen as well as to incentivise the production of green hydrogen. There is an awful lot that we can do separately in the UK. However, as Dan Alchin said, we need to pay attention to the other international markets, because some of those are based on commodities that flow freely across the world.

Natalie Don: Good morning to the panel. Given the large number of failures in the UK energy market despite the significant increase in energy bills, is Ofgem's price cap fit for purpose? Will Ofgem's proposals to boost resilience in the energy sector—for example, the proposals on

financial stress testing for suppliers and on increasing the number of times a year that the price cap can be adjusted—have a material impact on the market?

I put that to Dan Alchin first.

Dan Alchin: We need to remember what the objectives and purpose of the price cap were when it was first introduced. It was introduced to ensure that customers paid a fair price for the energy that they were using, to ensure that no customer was being overcharged and to address what we called the loyalty penalty. The price cap was not a social price support scheme and was not about ensuring affordability or tackling fuel poverty; it was about ensuring that customers paid a price that reflected the cost of energy, and that is sort of what it does.

It is fair to ask whether those should still be the objectives and goals of any market intervention. We can have a discussion about that, but we need to recognise that the price cap was meant to do one thing and that, over a period of about six months—particularly over the winter period—it was doing a very different thing, in that it was shielding a lot of customers from the true cost of energy, as crises were rapidly escalating. As the price cap has been increased, that cost has started to flow through.

The action plan on financial stress testing that Ofgem announced just after Christmas is incredibly welcome. Over the past few years, Ofgem took some action to try to improve testing of suppliers' financial resilience and put controls in place. That was welcome but, in all honesty, it was probably too little, too late. However, the additional protections that Ofgem has announced are, in principle, broadly welcome, and they should ensure that we have a more stable and resilient supply sector. Of course, the devil is always in the detail, and we are still waiting to see lots of the detail on many of the policies coming out from Ofgem. However, the policy is broadly heading in the right direction.

Natalie Don: To follow up on your first point, do you feel that energy suppliers are genuinely trying to keep costs down and that, without continued increases in the price cap, private energy firms would struggle? Are those increases necessary, when energy firms are still achieving high profits?

Dan Alchin: I would challenge that last point. In the energy supply sector over the past few years—going back to the last normal year before the global pandemic—average returns across the five largest suppliers were something like -1 per cent, so the sector generally has not been making money.

On the price cap, we have seen 29 suppliers go out of business, largely because they were not

able to recover the costs that they were incurring and simply could not keep going. Unfortunately, the price cap had to increase, because the cost of the base commodity had increased. If the cap had not increased, we would have seen further difficulties for suppliers and potentially further failures. We have seen 29 failures to date, and Citizens Advice estimates that the 28 that have gone through the supplier of last resort process will add at least £2.8 billion to consumer bills. Further supply failures would simply have continued increasing that number and placing further costs on customers' bills.

Natalie Don: Scottish Power's parent company, Iberdrola, has announced that it forecasts a net profit for 2022 of somewhere between €4 billion and €4.2 billion. Taking those profits into consideration, how can Scottish Power justify increasing household utility bills by 54 per cent, in line with the increase in the energy cap? I put that to Keith Anderson.

Keith Anderson: The profit that you quoted is for the Iberdrola group, which is a huge international energy company. I would not say that that is a particularly relevant or fair benchmark to use in talking about what we should be doing on prices in the UK. In the UK, we operate three businesses: a renewables business, a networks business and a retail business.

In the past year, our retail business lost £267 million. We are not making money retailing gas and electricity. In the year before that, we lost £42 million, and in the year before that, we lost £200 million. Over the past five years, we have lost over £500 million retailing gas and electricity. The sector is not profitable or sustainable. Theoretically, the price cap should allow my company to make a 1.9 per cent margin. At this point, that is not happening in any way, shape or form. That is the context that I would put around the issue.

On whether the price cap is fit for purpose, the regulator has now said that the methodology in its current version is not fit for purpose, and that it has not been able to cope with the volatility in the marketplace or the significant shifts that there have been. A lot of changes to the price cap are being proposed and discussed. Some of those deal with the financial resilience of companies that operate in the marketplace.

Thirty companies have gone bankrupt and shut down. I would put those companies into two categories. A number of them were clearly not running a sustainable business model; their model was based on accelerated growth and using customer credit balances to fund that growth. Eventually, real life caught up with them; they ran out of money because of the volatility in the market and they shut down. A number of other

companies that have shut down were running a more realistic, more sustainable business model; unfortunately, just because of the size and scale of the volatility and the amounts of money involved, they have been unable to survive.

I will give you an example of what I mean by volatility. Let us consider the trading positions that a company needs to take to put in place the forward hedges that it needs to protect itself in the marketplace. During the worst weeks of the gas price fluctuations, we quite often had margin calls on our hedge positions of plus or minus £600 million or £700 million of cash collateral going in and out of the business on a daily basis. That is the level of volatility in the market, but it also gives you an idea of the resilience, sustainability and security that companies in the sector need to have in place. Companies need to be able to withstand those kinds of shocks and financial movements if they want to survive in the marketplace.

There were a lot of good things about the price cap, and I perfectly understand why it was introduced, but one of the myths in the lead-up to its introduction was that the industry was low risk. Quite clearly, it is not a low-risk industry: there are significant risks that come with operating in it, which is why it becomes so important to make sure that the regulator looks at proper financial resilience controls. The regulator is consulting on those just now. You could argue that that is too late, but it is better late than never; it will be good to look at those resilience controls. The review will also cover the use and protection of customer credit balances as part of companies' financial resilience to make sure that any company that is operating in the market has the right balance sheet—the cash strength and the financial strength—so that if it gets into trouble, it is not losing customers' money.

What do I mean by that? In total, the failed companies that have left the marketplace have caused everyone's electricity bill in the UK to have an additional £63 charge. That is the size and scale of the cost of those companies going bust. People often talk about the price cap as having protected customers during the period. To an extent, it has: it has delayed price increases from coming through, but the price cap has also allowed all those failures to come through the market. Customers are picking up the bill for that.

It is all going on customers' bills—there is an additional £63 charge for every customer in this country because of those failed companies going out of the marketplace. If you want a one-word answer to the question about whether the price cap is fit for purpose, it would be no. That is why the price cap's methodology is being reformed so radically, and why so much reform is going on in

relation to financial resilience controls for companies that operate in this marketplace.

12:00

To come back to your earlier comment, I am fortunate that I am part of a group that is very large and successful. On the back of the massive investments that we have made in renewables and networks in this country and across the world, we have the financial strength and resilience to withstand taking a £267 million loss in the marketplace.

On the profit that we make in this country from our renewables and networks businesses, every year of the past five years, I have invested more in the UK than I have ever made in a profit or paid in a dividend. We are investing hugely in the future of this country with, on average, more than £1.5 billion a year of investment in new wind farms, solar plant, battery technology, and transmission and distribution systems.

Natalie Don: Thank you for your thorough response.

The Convener: Keith Anderson, the margin calls that you mentioned are quite remarkable. There may have been a perception before this crisis that this was a sector of regulated utilities operating in a low-risk environment, but that is clearly not the case. Thank you for that background.

Jackie Dunbar: My question is about the transition to net zero. What is the potential impact on the UK and Scottish Governments of plans for blue hydrogen due to the spike in gas prices? What changes need to be made?

Ross Dornan: In the past few weeks, we have seen a significant increase in the hydrogen ambition in the UK Government's energy security strategy. Within that, I think that there is a commitment for at least half to come from low-carbon hydrogen, with the remainder to come from blue hydrogen, or that which is reformed from natural gas. I do not have the analysis to hand to say definitively what the current gas market means for blue hydrogen production, but I know that, generally, blue hydrogen presents a more near-term opportunity from both a technological and an economic point of view.

I saw in the press this morning that one of Offshore Energy's members, Kellas Midstream, is looking at moving forward with a £750 million investment in blue hydrogen production in the UK. That tells me that there is still opportunity in that area and that companies are still moving forward with their plans on blue hydrogen.

I could speak to my colleagues at OEUK and see whether I can come back with a more

comprehensive answer. Perhaps we can do a bit more analysis on the impact of gas prices in the area. It comes back to the fact that there is a lot of work to be done to make those hydrogen models robust and sustainable, and to get to a position where companies can take on the risk in moving investments forward. However, I was encouraged to see the news from some of our members this morning that they are still looking seriously at moving forward at pace with those models.

Jackie Dunbar: I would appreciate it if the committee were to get that information, if that is at all possible.

Dan, would you like to add something?

Dan Alchin: More generally on hydrogen, we probably all agree that that has an important role to play on the journey to net zero, as the Climate Change Committee and others have set out.

On the topic of blue hydrogen in particular, that probably still has a role in the short term as a bridge to getting us to a cleaner and more renewable system. However, we must remember that that is not necessarily carbon neutral. We need to keep that in mind when we look towards our net zero ambitions and ultimate aims.

More generally on hydrogen, we must have open and honest conversations about when and where that can be best used. That includes thinking about where it has the potential to have the most impact to help us on that journey, such as the transport and heavy industry sectors, and how we can use it in those industries to fill the gaps that electrification might leave.

Jackie Dunbar: Thank you.

Liam Kerr: I will direct my questions to Ross Dornan. A matter arises from Keith Anderson's useful answer around profits. Many of your members reported large profits this year, prompting some to call for a windfall tax. Earlier, Dan Alchin said that we need to accelerate the transition to renewables. From my visits to many of your members, I am aware that they are investing huge sums not only in North Sea production, which, of course, positively impacts on jobs and energy security, but, crucially, in research, development and the transition to renewables and green jobs.

I have two questions, the first of which arises from Keith Anderson's answer. Do record profits for your members mean record dividends to the shareholders? Secondly, what impact does talk of a windfall tax and/or negative public relations, or, indeed bringing in a windfall tax, have on companies' and investors' willingness to invest in the basin, in renewables development and in what you called earlier a "fair, managed transition" to a better energy mix?

Ross Dornan: You raise a number of fundamental issues that are worth unpicking one by one. First, I will build on some of the answers in response to the previous questions on company profits. We cannot get away from the fact that our members that are oil and gas producers have posted higher profits in the past 12 months as commodity prices have rebounded. However, as was said, it is important to understand the full dynamic that is at play. Furthermore, as was said in response to the previous question, we must also look at the situation over a period of years.

In the past five to eight years, there has been significant volatility in the commodity markets. The profitability in that period for companies that produce oil and gas in the UK has been marginal at best. In 2020, some of the results that oil and gas producers in the UK posted were among the largest corporate losses that have ever been filed in UK history. It takes time for companies to rebalance their finances and businesses after going through such periods.

Similarly to what Keith Anderson said about Scottish Power, we have to recognise the global nature of the companies in question. When we see some companies posting large profits, we must reflect that their UK oil and gas production is often less than five per cent of their global production. Therefore, the UK accounts for only a relatively small proportion of their business and they pay taxes on profits around the world where they operate. As a result of that, the vast majority of the profits that companies are recording are not accessible to the UK tax regime.

The UK oil and gas industry is one of the highest-taxed industrial sectors—the effective rate is 40 per cent, which is double the effective rate of wider UK corporation tax. It has paid £375 billion in production taxes in the past 50 years. If we look at the next five years, the industry is forecast to pay £23 billion. That is £13 billion more in tax from the sector than was forecast by the Office for Budget Responsibility just six months ago. Therefore, there is a significant uplift in the taxes that are being paid by our sector because of the increased profitability of companies and commodity prices.

On your points about investment, we have to reflect that, in many cases, companies are doing a lot more with their finances than they have done in the past, as they diversify across the energy sector. Investment has fallen due to the pandemic and other challenges that companies are facing, but companies are still spending significant amounts on oil and gas production in the UK—to the tune of something like £12 billion per year across capital investment, operational expenses and decommissioning expenses.

On top of that, companies are leading the way in many low-carbon energies and are development partners in many of the largest offshore renewable projects around the UK. They are key partners and are leading the way in all the hydrogen and carbon capture industrial clusters around the UK. Those are new sectors for the companies. They are de-risking their investments in that regard, but significant money is flowing in that direction.

If we look at the balance of expenditure in companies that are transitioning from oil and gas, we see that, at the moment, the vast majority of expenditure is in oil and gas development, as companies transition. However, as we look to the future, we will really start to see the transition happen. Five years into the future, we will probably be getting to a 50:50 split, and by the end of the decade, companies in the UK that we traditionally think of as oil and gas companies will potentially be directing more money towards lower-carbon projects than they will be directing towards oil and gas projects.

When companies look at the wider picture, it is important that investment conditions are stable. That comes down to the fiscal regime, the regulatory regimes and, more generally, holistic support from our political stakeholders for energy investments in the UK. It is really important that we have that enduring support, stability and predictability of conditions, not just now but in future.

Liam Kerr: I have one more question, which is for Ross Dornan again.

Ross, in your opening remarks, you talked about the location of supply and mentioned increased competition from a refocusing of gas markets. Keith Anderson talked about moving away from gas, but a report by McKinsey that I was reading this morning suggests that gas demand will continue to rise until 2035.

The UK Government energy security strategy, which was mentioned, will launch an oil and gas offshore licensing round, with the aim of improving energy security and affordability. We know that imported liquefied natural gas has about two to three times the carbon footprint of domestically produced gas. Therefore, the question is this: what is the impact on energy security and the price for consumers of greater North Sea production of gas, and what are the environmental consequences of that?

Ross Dornan: That is a comprehensive question, which I will try to break down into different parts. You are right that there is a range of scenarios out there for how oil and gas use will evolve in the Scottish, UK and global economies.

Let us look at scenarios closer to home, at UK level. If we take the scenario from the Department

for Business, Energy and Industrial Strategy—the scenario that is compatible with the net zero delivery pathway in the energy strategy—or the Climate Change Committee’s balanced net zero pathway, both of which scenarios are compatible with a net zero outcome in the UK, we can see that both outline an enduring requirement for oil and gas within a more diverse energy sector. We will see growth in renewables, electrification and low-carbon energies, but there are some areas that are really hard to decarbonise, and that is where we will see an enduring need for continued oil and gas use.

Let us take the UK Climate Change Committee’s forecast, for example. If we were to aggregate all the enduring energy needs in that scenario over the next 30 years, we would see that about half of them, across different parts of the economy, in areas such as heating and transport, will be supplied by oil and gas.

12:15

We need to think carefully about how we supply those enduring needs. In order to manage that as best we can, we need to invest in our domestic production to ensure that we manage the decline rates effectively in the coming years. It is important that we have the right investment conditions for that.

As I said in my previous answer, the investment framework spans a number of areas, and the way in which it all comes together will dictate how effectively we can secure new investment. If we can drive more investment in the base, we are probably looking at an overall supply decline rate for oil and gas in the UK of, on average, about 5 per cent per year over the next five to 10 years. If we do not invest, we are probably looking at a production decline rate of nearly 15 per cent per year, which is far quicker than the rate at which our oil and gas consumption is going to decline. Investment helps us to manage the profile in line with demand, and to manage our exposure to international markets.

However, we have to recognise that it is about not just energy security, but skills and supply chain development. We need to think about how we can support those skills, support supply chains to transition and support low-carbon energy developments, alongside oil and gas developments, in future.

As you mentioned, new licensing rounds are crucial to all that—they are an important show of commitment from the Government as part of its energy security strategy. It shows that the Government recognises the future role of oil and gas within a more diverse energy system. That Government support is really important to

company decision making, as political risk can be as important as market risk or financial returns when companies are looking at their investment appraisals. As I said previously, we need stability and confidence. Signals that the fiscal and licensing regime is going to endure will be important for investor confidence in the oil and gas sector, bearing in mind that the same companies will drive many of our lower-carbon energy sources.

On your point about emissions, it is important to note that future licensing will be done in line with implementation of the climate compatibility checkpoint, which adds transparency, rigour and robustness to the process. You mentioned that domestic supply involves a lower rate of emissions than many other imports of energy. When we look to the future, it is clear that, in the UK, we have greater ambitions than many of those international supply sources for reducing our emissions further. By 2030, our production emissions will be less than half of what they were in 2018, and by 2040 they will be 90 per cent lower; we are committed to a net zero production base by 2050.

The right thing to do is to support our industry and work with it on the path to net zero. We have a shared net zero ambition, and we need to show how the oil and gas sector in Scotland and in the UK can be an exemplar of net zero oil and gas supplies that other countries can follow in the future.

Liam Kerr: I am very grateful for your evidence.

The Convener: Next up is Monica Lennon.

Monica Lennon: Good afternoon. We heard from our previous panel, which included representatives of the Joseph Rowntree Foundation, Energy Action Scotland and Citizens Advice Scotland, that the current situation is a collective failure, which does not reflect well on Governments or the industry itself. We also heard fears that the crisis will lead to

“a catastrophic loss of life”;

it does not get more serious than that.

Keith Anderson, is there a compelling case for a freeze on the energy cap in October?

Keith Anderson: No, I do not think that there is a compelling case for a freeze on the cap. The problem is that if you do that without any support coming into the industry and the sector, you risk seeing more, and larger, company failures because of the size of the losses that have already been experienced in the sector. That is why I said earlier that we need to move to a position in which we end up with some kind of fund being created that alleviates a significant proportion of the impact and pain for consumers.

There is absolutely no doubt that this is going to affect a huge number of people really hard. As I have said in the past, it could be truly horrific for a large number of people, and they will need help and support. However, we also need an energy retail sector that is sustainable and that makes business sense, and I would try to balance those two things by creating a deficit fund that takes the pain away from those who will feel it the hardest, the cost of which would be spread over a 10-year period.

We should also move away from the cap in its current format and put in place a social tariff, because one of the issues with the price cap right now is that it prices pre-payment meters more expensively than direct debit dual fuel accounts. I know that there is not a direct or 100 per cent match between pre-payment meters and fuel poverty, but there is a big overlap, and deliberately having a methodology that makes people on pre-payment meters pay more money for their energy is, I think, slightly perverse. I would therefore bring in a social tariff.

In short, my stage 1 would be to put in place a deficit fund to take away the immediate pain and to spread the impact and cost of that over 10 years. Once the market moved to a more stable footing, I would then bring in a social tariff. There is a group of people across the country who can afford to pay for their energy and should pay the true, proper and cost-reflective price, and there is also a group of people who will struggle to cope and should therefore pay a lower price through what would be deemed a social tariff. That is the system that I would move to.

Monica Lennon: Thank you for that answer. I would say, though, that many people will disagree and say that there is a moral case for a freeze.

Natalie Don touched on the issue of profits, and you have given quite a comprehensive answer on that. Another figure that I have seen in some media sources in recent months is the more than £7 billion in operating profits that the big six energy firms have banked in just five years. Do you understand why some people feel quite offended when energy companies—I am not saying that your company does this—tell them to hug their pets, put on socks or jump up and down? Can you see why people feel let down? Do you see why, when people hear companies say, “Don’t freeze the cap—let’s bring in a social tariff,” they feel that the Government and the companies need to do more?

Keith Anderson: I absolutely understand that. I listen to the calls that come into our call centre, and I get emails directly from customers, so I totally understand the pain, the anxiety and the worry that exist out there right now. Even more than that, there are large groups of people who

have probably never experienced this form of financial pressure before; they are going to go through it for the first time, and they are seriously worried.

I do not look at any of these things lightly, and I would never make stupid suggestions about putting on jumpers or doing other daft things. It is just insulting to people to say those kinds of things. This is a serious issue.

I have come to the conclusions that I have come to because the issue has got so big. It is beyond what I as a company can deal with on my own and I think that it is beyond what the industry can deal with on its own, too, because of the size and scale of the financial pressure not just on individuals but on the entire industry and sector. That is why I have moved my proposal.

We have—and have always had—a lot of processes in place to help customers, and the first thing that I would always say and which we would continue to say to all our customers is, “Speak to us. Please, please communicate with us.” We know that it is difficult, and we know that lots of people sometimes feel embarrassed about contacting us, but absolutely the best thing that anyone can do is to approach and talk to us, because we will find a way of helping. Whether we put them in touch with certain agencies or help them through the warm home discount or our £5 million hardship fund, there are lots of ways in which we can help people.

At the really sharp end, we have put in place a process with Citizens Advice and food banks to give people direct access to credit on a pre-payment meter, so that they do not self-disconnect.

There is stuff like that that we can do, which we will continue to do, but if we are looking at a sum of £1,000 on someone’s energy bill, I cannot deal with that. I do not have the financial strength or the backing to take all of that pain away. That is why I think that a larger Government support scheme is needed.

Monica Lennon: It is welcome that you went to the House of Commons last week and set out a proposal. You said to the UK Government that there should be a social tariff that would take £1,000 off the bills of people who are struggling the most. If the Government does not agree to do that, what will be the consequence? Without a social tariff, what do you fear will happen?

Keith Anderson: From what I have heard from the UK Government, there appears to be a recognition that more needs to be done, but the conversation now is about waiting until October to see what the impact is of the next price cap rise. That concerns me, because of the anxiety that the

situation is causing people already. That is a long time for people to wait to understand the answer—

Monica Lennon: Is waiting until October too late?

Keith Anderson: Yes, I think that it is too late. We are pushing the Government very hard to look at announcing further measures in the summer. That would absolutely be my preference.

The other reason for timing things in that way is that it would give the industry and others time to implement the solution. For example, the announcement of the £200 discount against an energy bill, which will get repaid over the following three or four years, was announced at about the time of the most recent price cap announcement. There is still a process under way to look at how that gets implemented. It will be delivered in October, because these things take time to implement.

If we do not think about what we are going to do and look at having that agreed by June or July, I find it impossible to believe that it can be implemented by October, unless it is a very blunt, wide scheme. It could be another discount, or the Government could look at policies such as removing VAT from bills or taking other money off bills. It could do that, but the nice thing about a deficit fund is that it would be targeted at those people who require it most. The nice thing about transitioning it to a social tariff is that it could be targeted at those people who need the help the most. That is why I would drive it down that route.

However, I honestly believe that we should be looking at having an agreement on what we are going to do by the summer.

Monica Lennon: I think that we all agree that the issue is very urgent. I think that we are out of time, so I will hand back to the convener. However, if any of the other panel members have anything to add, perhaps they could do so in writing.

The Convener: Yes, that is fantastic, Monica. The final set of questions comes from Mark Ruskell, who joins us online.

Mark Ruskell: Perhaps I could pick up where we just left off, with the proposal for a deficit fund. How we would fund that seems to be absolutely critical.

I turn to Ross Dornan from the oil and gas sector. Does the oil and gas sector recognise that it could have a role in supporting vulnerable consumers directly? I point to the fact that, over the past five years, the sector has not paid tax on its North Sea operations—BP specifically has not paid any tax in the North Sea. I think that it was in February this year that BP’s chief financial officer said:

"It's possible that we're getting more cash than we know what to do with."

Surely paying more tax and enabling the Treasury to put money into a deficit fund would be one way to do that.

Ross Dornan: As a sector, we completely recognise and echo the sentiments that have been heard. This is such a tough time for everybody across the nation when it comes to what is happening within the energy markets.

12:30

We want to play our part. I do not recognise your comment that the industry does not pay tax. The industry has been in a negative tax position in only two years in its history—in 2016 and 2017—and it was very marginally in negative tax last year, when it paid more than £1.7 billion in taxes. Some companies have been in a negative tax-paying position, but that was in single years in a period of 50 years, and it is because of how the tax regime works in our industry.

Our industry has some very large business expenses, in the same way as any business across the country has business expenses, and we can treat those expenses in the same way by offsetting them against profits made and cash flows within the business. The difference in our sector is that a huge amount of our business expenses come at the end of a field's life, after the revenues and cash flows have been made. That is because of our significant decommissioning liabilities. Because of that, we have the ability to offset a proportion of those decommissioning costs against revenues made in previous years. It is not a way of our industry avoiding paying tax.

Mark Ruskell: BP paid a negative tax of 54 per cent in 2019.

Ross Dornan: That was a single year. You have to look at that year in isolation, when the company has paid billions of pounds in taxes over the past 50 years in the UK, and it will return to being a tax payer in the years to come. Such situations arise because of decommissioning liabilities in certain years. In the next five years, as I have said, our industry as a whole will pay £23 billion in taxes, even after decommissioning cost rebates have been paid from the UK Treasury; that is a net figure of £23 billion, which is £13 billion more than we expected to pay just six months ago. The OBR forecast for the financial year 2022-23 is that our industry will now pay £8.7 billion to £9 billion in taxes.

If we are talking about the right thing to do, it is for the Government to direct those taxes in the most effective way possible to support consumers, and that is what I would encourage the Government to do.

Mark Ruskell: Earlier, in your answer to Liam Kerr's question about companies' investment in the transition, you talked about getting away from expensive gas, which is driving the energy price. However, according to the International Energy Agency, in 2020, oil and gas companies invested only around 1 per cent of their capital expenditure in clean energy. Do you think that that is a fast enough transition? When do you think that the industry can get up to 70 per cent?

Ross Dornan: The figure that you quoted will have been a global figure. I can talk about what is happening in the UK. Some companies were mentioned earlier. BP has committed that for every £1 it makes from the oil and gas sector in the UK in the next 10 years, it will invest £2 in lower-carbon energy transition. Shell has committed to investing £25 billion in the UK energy sector.

Mark Ruskell: What proportion of that is capital expenditure? I do not want figures; I just want the proportion. When do we get to the point at which the majority of the capital expenditure that the oil and gas companies make is in the transition and clean energy, rather than in the expansion of oil and gas?

Ross Dornan: In some analysis that we did recently, we looked at the investment in oil and gas across capital investment, decommissioning and operating expenses. We also looked at offshore wind, hydrogen, and carbon capture and storage. Our current estimate is that, between 2022 and 2030, investment expenditure in those areas will be in excess of £200 billion.

Mark Ruskell: What percentage of capital expenditure is that?

Ross Dornan: When we aggregate oil and gas over the period, we find that about 60 per cent is directed towards lower-carbon energy, and about 40 per cent is directed towards oil and gas expenditure. We get to a position in which total expenditure by companies that are transitioning from the oil and gas sector is in the region of £15 billion to £20 billion per year, and that is going into the UK energy system. That is a huge amount of money and it does not happen on its own. It needs support from across the political spectrum to mobilise and facilitate that investment and to attract it to the UK.

That is why it is really important that we have the investment frameworks. Companies are investing for decades into the future. For example, the time horizons for the investments that are being made now are for energy production into the 2030s, 2040s and 2050s. There needs to be as much certainty as possible on the future of political support, and what fiscal regimes and regulatory

models will look like, so that we can instil investor confidence.

We need political consensus. If we see fiscal regimes and Government and other stakeholder support levels changing on shorter cycles, that will damage the way in which companies view holistic energy investments in the UK in the decades to come. We need to look at all these investments as holistic energy investments, rather than looking at oil and gas, hydrogen and wind as all being separate. There are huge synergies across those areas, and some of the biggest investors in them are diversifying from oil and gas. They look at what is happening in the UK, and if there is damage to the oil and gas investment regime's fiscal stability, that could have a knock-on effect on how they view investment in other ways.

The Convener: Ross, I am afraid—

Ross Dornan: That is why investors must come together to help to achieve a net zero future. It will not happen on its own.

Mark Ruskell: I have another question.

The Convener: Mark, I really do not want to bring the discussion to an end, but we are up against the clock; in fact, we are well over time.

That brings us to the end of our allocated time. I thank our panel members for attending, and for their comprehensive insights and recommendations. We appreciate you taking time out to appear before the committee. If any of you would like to follow up in writing because you feel that you did not have the chance to address some of the issues that were raised—I appreciate that time was quite tight—that would be very much appreciated.

We now move into private session. Enjoy the rest of your day.

12:36

Meeting continued in private until 12:43.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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