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6 July 2023

Dear Russell,

Thank you for your letter to the Chancellor of 3 March. I am responding as the minister responsible for energy policy. Please accept my sincere apologies for the delay in responding to your letter.

You are right to highlight the North-east of Scotland's world-class energy sector and the opportunity it has to be at the forefront of the UK's transition to net zero. I hope you will have welcomed some of the measures announced at Spring Budget, including the £20bn long-term funding commitment to CCUS. In *Powering Up Britain*, published on 30 March, the Government also launched Track-2 of the CCUS Cluster Sequencing Process to identify two additional clusters, contributing to our ambition to capture 20-30 Mt CO<sub>2</sub> per year across the economy by 2030. At this stage, we consider Acorn to be one of the two transport and storage systems best placed to deliver Government's objectives for Track-2.

The UK was one of the first countries to implement a fiscal response to high oil and gas prices by introducing the Energy Profits Levy (EPL) in May last year. This recognised that profit levels in the sector had increased significantly due to record high oil and gas prices caused by global circumstances, including Russia's invasion of Ukraine, and that it was right that oil and gas companies pay their fair share.

However, if oil and gas prices return to normal levels, it is also right that the tax rate on oil and gas companies return to normal levels too. By introducing the Energy Security Investment Mechanism (ESIM) on 09 June, the Government is providing certainty about the future of the EPL. This allows companies to invest confidently in the UK, supporting our economy, jobs, and energy security. The Government will set out further information on the detailed operation of the ESIM at a later date.

In the 2022 Autumn Statement, the Chancellor announced a review into the long-term fiscal regime for North Sea oil and gas to ensure the regime delivers predictability and certainty, supporting investment, jobs and the country's energy security.

In June the Government published a Terms of Reference, setting out the review's scope and objectives. The review will focus on how the fiscal regime can support the country's energy security while also realising our net-zero commitments in the medium and long term. In addition, the review will explore how the fiscal regime should respond to any future price shocks, ensuring the country retains a fair return in exchange for the use of its resources in a high-price environment.

The full terms of reference can be found on the GOV.UK website: <https://www.gov.uk/government/publications/review-of-the-oil-and-gas-fiscal-regime-terms-of-reference>

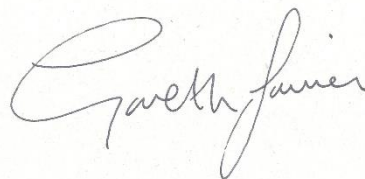
The Government is committed to expanding electricity network capacity to accommodate new clean sources of electricity generation including offshore wind, as set out jointly with Ofgem in the Electricity Networks Strategic Framework. In Ofgem's current electricity transmission network price control RIIO-T2, Ofgem has proposed £8.7bn upfront funding to connect green electricity sources and transmission grid upgrades to make sure the network is resilient and copes well with rising levels of renewable power. In addition, Ofgem has introduced mechanisms to inject additional funding that companies can access over the price control to drive decarbonisation and infrastructure upgrades as required. This could see potentially another £10bn or more of net zero investment through the price control for gas and electricity transmission.

The Government recognises the need to accelerate network delivery to meet 2030 renewables ambitions, and that is why Ofgem, through their Accelerating Strategic Transmission Investment decision, has accelerated approximately £20bn worth of network projects. The Government and Ofgem have already taken action to improve strategic planning of the electricity networks and speed up consenting and regulatory approvals. As set out in the Net Zero Growth Plan in March, we will also set out an action plan later on this year in response to Electricity Networks Commissioner Nick Winser's recommendations on halving the development time for transmission network projects.

The City and Growth Deals programme is a joint initiative between the UK Government and devolved administrations that will deliver real benefits to regions across the UK, including Aberdeen. We are looking forward to continuing to work together on this programme to make it a success, however there are no further plans for joint funded programmes.

I would be very happy to participate in a roundtable with the energy sector when I visit Aberdeen. My diary doesn't permit a trip to North East Scotland in the next few weeks, but this is something which I very much hope to do in the near future. My office will be in touch when the opportunity arises.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gareth Davies', written in a cursive style.

**Gareth Davies MP**  
**Exchequer Secretary to the Treasury**