



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Ryan Crighton  
Aberdeen & Grampian Chamber of Commerce  
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3 January 2024

Dear Mr Crighton,

Thank you for your letter of 1 December to the Chancellor of the Exchequer on behalf of the Aberdeen and Grampian Chamber of Commerce about the Energy Profits Levy (EPL). I am replying as the Minister responsible for this policy area.

As you will be aware, the Government introduced the EPL on 26 May 2022 to respond to exceptionally high prices that meant oil and gas companies were benefiting from unexpectedly high profits - above and beyond what they could have forecast to earn. Currently, inclusive of the EPL, companies engaged in the production of oil and gas in the UK and on the UK Continental Shelf are subject to a 75 per cent headline tax rates on their profits. Since the industry's inception, the oil and gas sector has paid almost £400 billion in production taxes in the UK, which is almost eight-times the UK-wide annual defence budget.

From 2023/2024 to 2027/2028, the Office for Budget Responsibility expect the EPL to raise almost £15 billion. Revenues from the levy are on top of nearly £13 billion in tax receipts expected from the sector over the same period through the permanent tax regime. The £6 billion revenue raised by the EPL since its introduction has helped fund vital cost of living support, including the Energy Price Guarantee on household energy bills and additional support for those most in need.

While the UK still needs oil and gas, it makes sense to encourage investment in domestic resources and retain the economic benefits and support UK jobs. The Government has always been clear that it wants the oil and gas sector to reinvest its profits to support the economy, jobs, and the UK's energy security. That is why, whilst the EPL is in place, companies can claim around 91p in tax relief for every £1 they invest in the UK. This relief increases to £1.09 for every £1 invested towards reducing greenhouse gas emissions from the production of oil and gas, helping to support the sector to transition to lower carbon oil and gas production as part of our commitment to Net Zero.

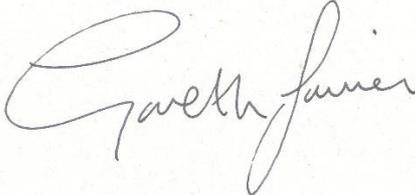
At Autumn Statement 2023, the Government announced a package of tax measures to give the sector more certainty on its short-, medium-, and long-term plan for the oil and gas tax regime, helping to provide predictability and support investment in the sector. This included reaffirming that the EPL will end in March 2028, or before if the prices fall below a set level for a sustained period; and meeting its commitment to publish the conclusions of the Oil and Gas Fiscal Regime Review before the end of 2023. The conclusions of the review recognised the importance of the predictability of the long-term tax regime by confirming that the permanent regime and its investment incentives will remain the same and setting out principles for the treatment of future price shocks. They also confirmed that the Government will remove tax barriers to the energy transition and ensure that companies who support the transition by repurposing their assets for use in Carbon Capture Usage and Storage are not disadvantaged.

In line with the intent and purpose of the Energy Security Investment Mechanism (ESIM) discussion note, the Government is committed to ensuring the ESIM is designed in a way that reflects the business environment the sector operates in, including the impact of increased costs. The Government recognises that higher oil and gas prices may have had an impact on the production costs of the oil and gas sector due to elevated global energy demand in recent years. Accordingly, the Government has decided to adjust the ESIM price thresholds in line with inflation in future tax years. Future adjustments to the thresholds will be based on annual CPI, starting from April 2024 and using the preceding December's CPI figure.

The Government will publish updated ESIM price thresholds before the start of each financial year. Under current projections, the ESIM is not predicted to trigger before the EPL's sunset date of March 2028.

Ministers appreciate the ongoing dialogue with industry. Thank you again for taking the time to make me aware of these concerns.

Yours sincerely,

A handwritten signature in black ink, reading "Gareth Davies". The signature is written in a cursive, flowing style.

**Gareth Davies MP**  
**EXCHEQUER SECRETARY TO THE TREASURY**