

# Rising Energy Prices and the Cost of Living Crisis

A Friends of the Earth Scotland briefing

June 2022



## Summary

The cost of living crisis is expected to push millions across the UK into poverty and a further 210,000 households in Scotland into fuel poverty.<sup>1</sup> This inflation is being driven by massive rises in energy prices<sup>2</sup> at the same time as companies like Shell and BP post record-breaking profits.<sup>3</sup> Our continued reliance on fossil fuels in our energy system is enabling massive profits to be extracted while simultaneously leaving Scotland exposed to volatile prices and driving us closer to climate breakdown.

There is an urgent need for intervention to provide immediate support to people hit by the cost of living rises as well as to drive a rapid overhaul of our energy system away from fossil fuels towards publicly-owned, affordable renewable energy to prevent both social and climate crises in the future.

There are immediate areas where the Scottish Government can play a greater role in creating a fossil free energy system over the next decade. The Scottish Government must:

- Explore every available lever to support households, particularly those on low-incomes, to urgently tackle falling living standards. This includes measures which redistribute wealth by raising taxes on the wealthiest, raising pay for public sector workers and improving tenants and employment rights.
- Future-proof our energy system by facilitating the fastest possible transition away from fossil fuels through a rapid expansion of renewables, electrification of key sectors and improved storage technology.
- Lead the transition by ending the failed market based approach to energy, instead prioritising people and planet over corporate interests in the energy transition by establishing a public energy community to support national, municipal and community ownership models and providing energy at affordable prices.

## Overview

Our energy system is failing to deliver for people or the planet. The cost of living crisis is being driven by rises in energy prices while energy companies post billions in profits, with further price rises expected this year. The global energy sector is controlled by a relatively small number of companies whose sole focus is profit - they have demonstrated that they don't care about bills, climate breakdown or the impacts of mining and drilling the resources they want from around the world.

This briefing focuses upon the immediate needs of people in the cost of living crisis before turning to outline the approach needed to build a more resilient, affordable energy system to prevent future social and climate crises. It addresses arguments made by fossil fuel and other industry lobby groups that would only serve to further entrench us into this broken energy system.

<sup>1</sup> [https://www.eas.org.uk/en/fuel-poverty-set-to-break-the-50-barrier-in-parts-of-scotland\\_59652/](https://www.eas.org.uk/en/fuel-poverty-set-to-break-the-50-barrier-in-parts-of-scotland_59652/)

<sup>2</sup> [https://www.ey.com/en\\_ru/energy-resources/energodigest/2022/01/inflation-driven-by-energy-prices](https://www.ey.com/en_ru/energy-resources/energodigest/2022/01/inflation-driven-by-energy-prices)

<sup>3</sup> <https://www.bbc.co.uk/news/business-61330552>

### **Immediate support to tackle cost of living crisis**

There is no short-term fix to the wholesale cost of energy and another price cap rise is due later in the year, leading to what is expected to be a dramatic rise in fuel poverty. The measures the government needs to take to address the immediate and short term impacts will therefore have to be in the areas of welfare and other forms of financial support for those worst impacted. While higher earners may be able to absorb this cost, a substantial number of lower income households will be at increased risk of poverty and so mitigation measures must prioritise the most vulnerable.

We support a windfall tax on the extreme profits being collected by energy companies to be redirected towards supporting lowest income households to pay their energy bills. However, this should not come with tax breaks for oil & gas investment and the tax is **not a panacea for the cost of living crisis**. The Scottish Government should therefore explore all options for immediate support to people, including those highlighted by the STUC in their recent submission to the Net Zero, Energy and Transport Committee on this issue.

To tackle the cost of living crisis comprehensively, the priority must be to protect marginalised people and those on low incomes by redistributing wealth. Provide adequate incomes for all instead of enabling huge profits for shareholders, significantly raise taxes on the wealthy, ensure all public workers receive at least the real Living Wage and strengthen workers' rights. Particular focus must be given to investigating and mitigating the disproportionate impacts of the cost of living crisis and energy price rises on women, children and young people, disabled people, LGBTI+ people, people

of colour, private renters, and those on lower incomes.

### **Build a future-proof, fossil free economy**

The dramatic rises in the prices of oil and gas, compounded by the reductions in supplies as a result of the war in Ukraine, have demonstrated the failings of our broken energy system. But what is unfolding now is not solely the result of the Russian invasion, or any other one event. This crisis is a symptom of the inherent volatility of the international oil and gas market and the extreme exposure of Scotland and the UK to this volatility due to our reliance on fossil fuels.

Wars, political upheaval and natural disasters have all had significant impacts on the world's oil and gas prices and will continue to do so in the future. The continued social and environmental damage our energy system causes underlines the need for a just transition away from fossil fuels to renewable energy.

### **Climate urgency**

Renewables continue to be **the most affordable form of energy available** and as renewable energy can't be readily exported in the way that fossil fuels can, are less susceptible to sudden fluctuations in price that fossil fuels experience.

The International Energy Agency last year said that there should be no new investments in fossil fuel projects if the world is to limit dangerous climate warming to 1.5C. The UN Secretary-General described investment in fossil fuels as "moral and economic madness."

A diminishing global carbon budget and near term domestic climate targets necessitates a rapid shift away from

burning fossil fuels. When allied to the social harm caused by reliance on expensive oil and gas, the case for a transition to renewables becomes even stronger.

### **Reducing our dependence on fossil fuels will decrease energy costs**

If oil and gas prices are the driving force behind the price rise then moving away from fossil fuels is the answer and producing more will continue to leave us vulnerable. Renewables represent the most affordable form of energy with much of Scotland's renewables capacity still untapped.

A priority in reducing our reliance on fossil fuels is addressing the 81% of homes that rely on gas for heating. **The government needs to urgently support the move away from gas in heating systems.** As the Net Zero, Energy and Transport committee has heard in its evidence sessions on the role of local authorities on delivering net zero, government support will be essential to any effort to move away from gas. Local authorities should also move as quickly as possible to require all new housing developments to be insulated to the highest possible standards. A programme of retrofitting, to install electric and district heating systems while upgrading the quality of energy efficiency of homes can substantially reduce bills, energy demand and create a significant number of jobs.

### **Prioritise solutions deployable now**

Increasing production of North Sea oil and gas reserves will not alleviate the cost of living crisis. Increasing domestic production of fossil fuels is not possible in the short to medium term. North Sea oil and gas production generally operates at full capacity, so any expansion relies upon new licensing or permits of fields. These additional fields would take several years

to come online. As well as taking years to become operational, increasing production of fossil fuels in the North Sea would have "at most, a marginal effect on the prices faced by consumers in future" according to the UK Committee on Climate Change.<sup>4</sup> North Sea oil and gas is not subject to any import or export restrictions and is traded openly on the international energy markets.

**Deployable technologies to build a resilient, fossil free energy system are available today through a rapid expansion of renewable power,** electrification and efforts to reduce demand through energy efficiency.

### **Prioritising people and planet**

Our energy system is broken and our reliance on fossil fuels is speeding us to further climate breakdown. This also leaves us exposed to geopolitical pressures beyond our influence and to astronomical price rises that will push millions into poverty.

A Just Transition prioritises the people who all rely on the energy they use, the jobs that pay their bills and the planet that we share. The imperative is getting the transition right for people globally by doing our fair share of stopping climate breakdown, and domestically to ensure energy is provided reliably and affordably. A new approach from the current failing model is vital.

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<https://www.theccc.org.uk/publication/letter-climate-compatibility-of-new-oil-and-gas-fields/>