

# Cavendish

**OIL & GAS**

Sector insights

A large offshore oil rig is shown at sea. The rig is a complex of metal structures, including cranes and a central tower. A tall flare stack on the right side of the rig is emitting a bright yellow flame and a plume of dark smoke. The sky is overcast and grey, and the water is dark blue. The overall scene is industrial and somewhat somber.

— Navigating the energy profits levy: What it means for the future of the UK North Sea

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The Energy Profits Levy was introduced as a temporary measure, but its evolution has created real uncertainty—affecting investment decisions, slowing domestic production, and increasing the UK’s reliance on energy imports at a time when long-term stability is key.”

The Energy Profits Levy (EPL) has become one of the most consequential fiscal policies for the UK oil and gas sector in a generation. Brought in as a response to global commodity price spikes, it has since evolved—through four major changes—into a long-term structural shift. But what has it actually meant for production, investment, energy security and emissions?

In this article, Cavendish Research Director, James McCormack outlines the implications of the EPL, drawing on sector data, investor sentiment, and the lived realities of operating in the North Sea today.

**JAMES MCCORMACK**  
Research Director, Oil & Gas Sector

## Delivering homegrown energy

### Setting the scene

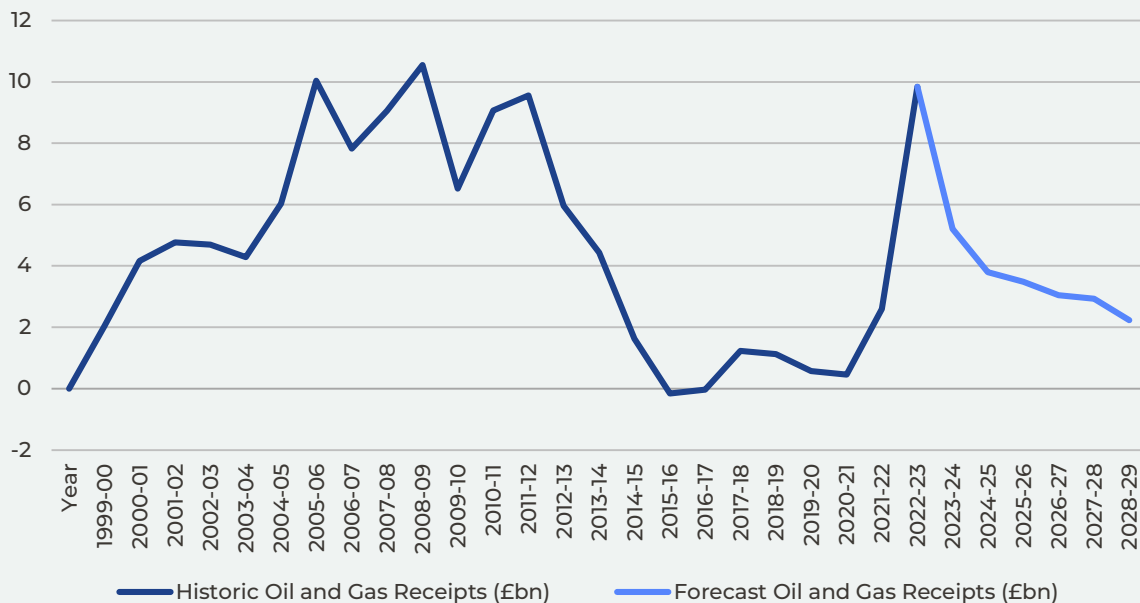
The UK's North Sea oil and gas industry has kept the lights on, heated homes and turned the wheels of industry for more than 50 years. Since production started, the equivalent of 50bn bbls of oil and gas have been produced, contributing half a trillion pounds in production taxes to the UK Treasury.

Oil and gas production added over £20bn to the UK economy in 2022/2023. The offshore energy industry provides over 200,000 jobs across the UK, providing secure and reliable energy to homes, transport and industry.

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The oil and gas sector has been a cornerstone of the UK's energy landscape for over fifty years. While continuing to supply essential energy, the industry is committed to reducing operational emissions and supporting the transition to sustainable energy systems.”

### UK GOVERNMENT OIL & GAS RECEIPTS



Source: ONS, OBR, Cavendish

## A policy in flux

### The Energy Profits Levy

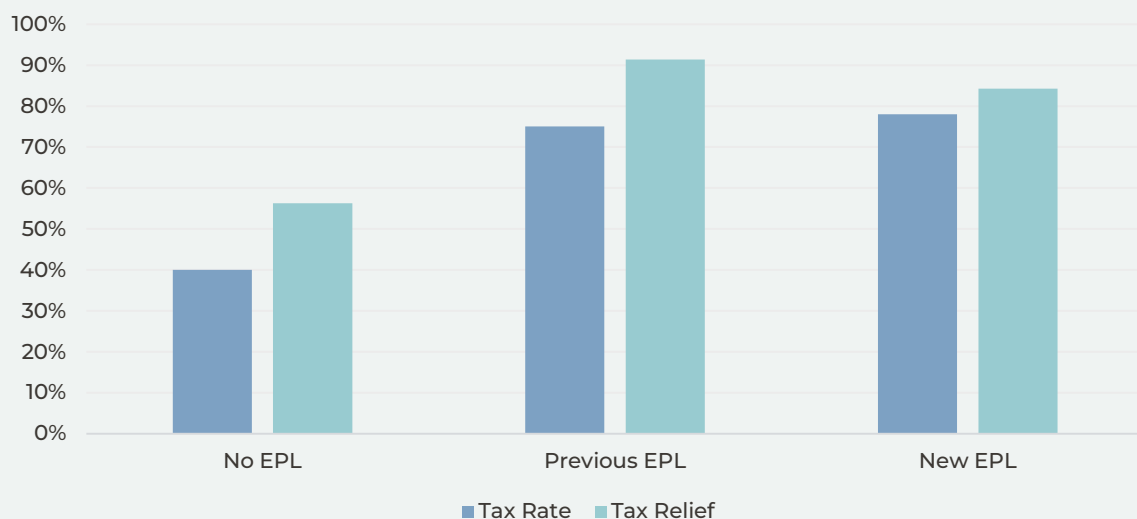
Introduced in May 2022 in response to high commodity prices following Russia’s invasion of Ukraine, the EPL was originally a 25% levy. It was meant to be temporary, ending in 2025, and included investment allowances to encourage continued capital expenditure.

Since then, the levy has been changed four times. It now stands at 38%, has had key investment incentives removed, and is scheduled to remain in place until March 2030. As a result, the headline rate of tax in the UK has nearly doubled for oil and gas companies from 40% to 78% in under 2 ½ years. A price mechanism was introduced that would see the levy fall away if both oil and gas prices dropped below specific thresholds. However, McCormack notes the mechanism has not functioned effectively.

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Oil prices have recently fallen below the threshold, but gas prices remain slightly above it. For the EPL to be removed, both must be below their thresholds. That means oil producers are currently facing low prices and high taxes at the same time. Despite oil and gas prices trending back towards pre-war levels, the “temporary” EPL remains.”

### UK TAX RATES AND RELIEF



Source: UK Government, Cavendish

## Declining production, rising exposure

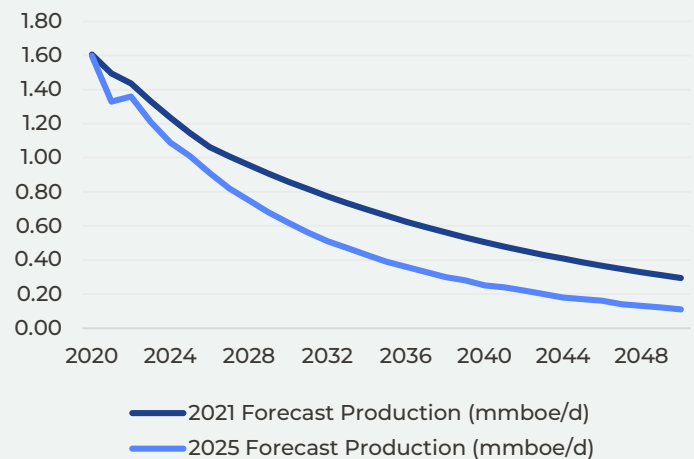
### Accelerating the decline

Up until 2004, the UK used to produce sufficient domestic production to meet its energy needs, but dwindling production has turned the UK from a net exporter of energy to a net importer. UK natural gas production has dropped significantly: from 113.5 billion cubic metres (bcm) in 2000 to just 26bcm in 2024.

Forecasts suggest this will fall to 12bcm by 2030 and decline further to 6.5bcm by 2035.

For oil, UK production peaked at 3.0mmbbls/d in 1999 but has since fallen by 78% to 650kboepd at the end of 2024. As a result, the UK's reliance on imports is growing—and so is its exposure to global market volatility.

### UK PROJECTED O&G PRODUCTION



Source: NSTA, Cavendish

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Production is about 10% lower than it was forecast to be in 2025, based on expectations from before the EPL, representing £5bn in lost potential pre-tax cash flow (*analysis from Wood Mackenzie*).

The North Sea Transition Authority's production forecasts have been significantly downgraded in recent years.”

The UK currently relies on oil and gas for 75% of its total energy needs, with UK production currently providing c50% of that total demand. Falling domestic production makes the UK more reliant on imports, international commodity prices with less security of supply. An increased reliance on imports is expensive and makes the UK strategically vulnerable as Europe discovered from its dependence on Russian supplies.

For the period 2025-2050, the NSTA has cut its projected production from 863m tonnes of oil equivalent in their 2021 projection (before the introduction of EPL) to 555m tonnes of oil equivalent in its October 2024 release, a write-down of 36% - this includes 160m tonnes of oil and 130m tonnes of domestic gas production that were lost over this period.

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## Energy bills, storage and supply risks

### Energy security

The UK's growing dependence on imports has consequences for consumers and businesses. In 2022 alone, energy imports totalled £117bn—roughly £4,200 per household- *according to analysis from Offshore Energies UK, the leading trade association for the UK's offshore energy industry.* It's also important to note that energy is by far the greatest contributor to the CPI and therefore inflation.

This has left households vulnerable to international price fluctuations. The price cap system—designed to shield consumers—risks market exits from energy suppliers if set too low, potentially reducing competition and undermining stability.

For businesses, energy is a crucial input cost, where fluctuations in energy prices can have a direct impact on their bottom line and long-term planning, whilst also making UK industry uncompetitive. To this end, the UK government needs to do everything in its power to maximise all forms of domestic energy supply.

The UK's limited gas storage capacity adds further risk. At peak winter demand, the country holds just seven days of supply—compared to over 100 days in countries like Germany, France, and the Netherlands.

This lack of storage and strained electricity supply came to the fore in January, where the intermittency of solar and wind was fully exposed. The UK came close to energy blackouts during this January's cold snap where the National Grid was forced to issue emergency market notices. These warnings, and the threat of energy blackouts, will only become more frequent and more serious as domestic production continues to fall and critical infrastructure is prematurely decommissioned.

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The less we produce, the more we have to import, and if we're importing from elsewhere, we're more exposed to market shocks.”



## Domestic vs imported emissions

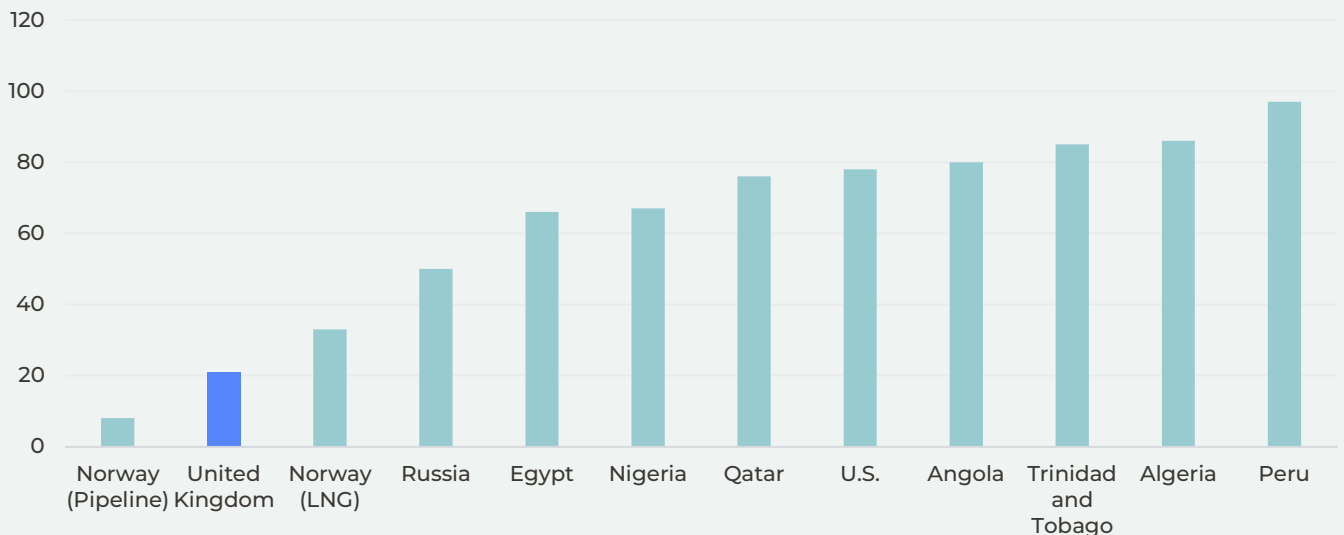
Increasing global emissions

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UK gas production emits about 21 kilograms of CO<sub>2</sub> per barrel of oil equivalent,” McCormack explains. “But if we’re importing LNG from the US, that can be as high as 79 kilograms—due to liquefaction, transport, and processing.

We may be reducing domestic emissions, but we’re offshoring them—and increasing global emissions in the process.”

### 2022 UK GAS SUPPLY CARBON INTENSITIES



Source: NSTA, Cavendish

Without continued investment in the basin, there is a potential for the import gap to exceed 75% by the turn of the decade, which could lead to higher consumer bills and the increasing the UK’s exposure to geopolitical events.

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## Investment drain and decommissioning risk

### A missed opportunity

Capital expenditure in the North Sea has collapsed. In 2024, only £105m has been spent on exploration and appraisal—the lowest figure for decades. Just four exploration and four appraisal wells were drilled in 2024.

However, the real damage is to the wider UK economy and the climate as a result of increased costs, job losses and higher emissions.

According to *Offshore Energies UK*, the UK is on track to extract up to 4bnbbbls of the 13-15bn required domestically by 2050. However, a further 3bn barrels will remain untapped due to the current tax and energy policy. Under the right energy policies, this 3bnbbbls could be produced, to meet half of the UK's needs rather than increasing its reliance on imports

The potential economic value of this additional production is estimated at £150bn, in addition to £200bn from already planned fields, safeguarding energy security, jobs and lower carbon emissions alongside an acceleration of renewables.

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Many rigs have already left the basin.

If we lose more, we may reach a point where the critical mass is no longer there—and that puts future projects and even decommissioning activity at risk.

If these fields are abandoned prematurely, decommissioning costs accelerate”

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It is estimated that the total industry costs for 2024 onwards for decommissioning all UK oil and gas infrastructure is £45bn. With the cost to the exchequer through tax relief from this expenditure of £11bn, *according to the NSTA*.

There's also the employment impact. The sector supports around 200,000 jobs—120,000 directly and another 80,000 indirectly. Many of these are concentrated in Scotland.

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If production stops earlier than expected, that talent base moves abroad. We lose both capacity and capability.”

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## The role of public consultation

### Three consultations in process

Three government consultations are currently underway, combined, these consultations look to give certainty to both industry and government on the long-term future of the North Sea so that Companies can invest knowing that the fiscal regime will be in-place for the next 10/15/20 years:

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#### Scope 3 – Emissions in Environmental Impact Assessments

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These cover emissions from end-use consumption, such as burning petrol or gas. Their inclusion in development planning is controversial.

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Scope 3 emissions don't change whether we produce domestically or import.

In fact, they increase if we import. So including them could discourage domestic projects for the wrong reasons.”

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#### A New Fiscal Mechanism for Oil and Gas Prices Post-2030

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Unlike the EPL, which taxes all profits, the new mechanism would only tax excess profits above a defined oil and gas price.

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That's a much smaller tax base.

And crucially, companies want clarity now—not in five years. These are 20–30 year investment decisions.”

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#### The Future of the North Sea

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This consultation addresses licensing. The government has confirmed that existing licences will be honoured and can progress through to production. However, it has paused the issuance of new licences.

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Without new licences, we lose long-term momentum. That doesn't make economic sense.”

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## Conclusion

### The future of the sector

At Cavendish, we continue to monitor developments across the UK energy sector and support clients navigating fiscal and strategic challenges in a shifting investment landscape. For institutional investors and operators alike, the decisions taken in the months ahead—particularly the outcomes of key public consultations—will define the pace and shape of domestic energy production for the next decade.

To discuss this analysis further or to understand how it may affect your portfolio or strategy, please get in touch with our team.



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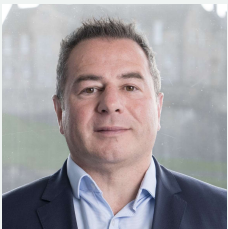


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