

BUSINESS OUTLOOK REPORT 2026

The comprehensive outlook for
the UK's offshore energy resources



BUSINESS OUTLOOK REPORT 2026

An integrating offshore energy industry which safely provides cleaner fuel, power and products for everyone in the UK.

Working together, we are a driving force of the UK's energy security and net zero ambitions. Our innovative companies, people and communities add value to the UK economy.

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Cover image:

Imported resources coming into the UK by ship for processing at the Fawley Refinery, Southampton. Energy, which is imported, including gas, is not produced here. It pays no UK taxes, supports no UK jobs, and we have no control over its emissions in the UK.

The energy dependency gap between what we produce in the UK and what we import also has energy security implications. In a volatile world, it makes sense to prioritise homegrown energy, including oil and gas.

Inside front cover:

Refining of oil and gas in the UK. The UK is part of a global network of refining capabilities, and overall refinery capacity in the UK has fallen by 55% since 2000.

FOREWORD

Dave Whitehouse,
Chief Executive Officer
Offshore Energies UK



The UK's energy system is at a turning point. Decisions taken now will determine not only how we heat our homes and power our businesses, but how resilient, competitive and investable our offshore energy system will be over the decades ahead. Our 2026 Business Outlook sets out a clear and evidence-based assessment of where the UK stands today, the emerging risks, and the opportunities that remain within reach if policy choices are grounded in realism rather than ideology.

Energy underpins everything: it sustains industry, supports tens of thousands of jobs, and provides the foundation for economic growth. Yet the UK's energy landscape is becoming more exposed. Domestic production of oil and gas is declining faster than demand, with policy being the driving force, not geology. At the same time, electricity demand is set to rise sharply as transport, heating and industry electrify, increasing reliance on a system that must remain flexible, reliable and affordable.

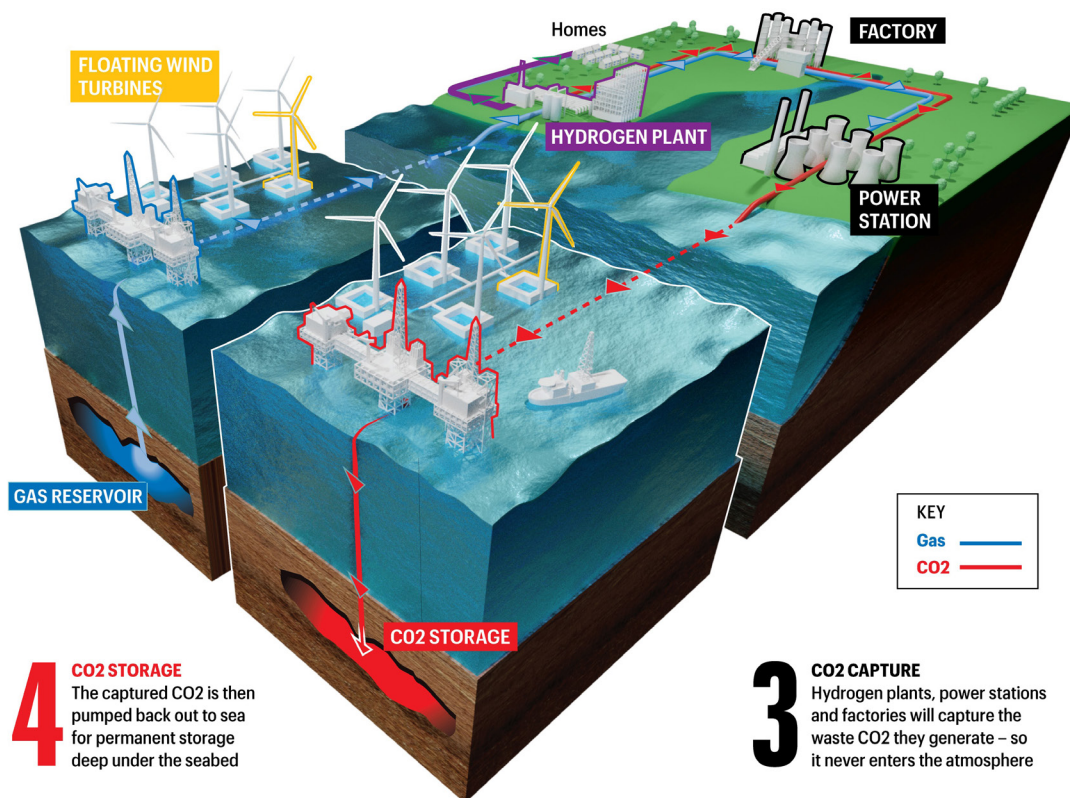
This report shows that the UK Continental Shelf (UKCS) remains a strategic national asset. The geology has not changed. Prolonged fiscal instability and regulatory uncertainty have weakened confidence, accelerated decline and increased our dependence on imported energy. That dependence brings higher emissions, higher costs and greater vulnerability to geopolitical shocks. Recent global events have demonstrated how quickly energy markets can tighten, how competition for oil and gas imports intensifies during stress periods, and how easily cargoes can be diverted away from the UK and Europe when other markets bid higher. An energy system with rising import dependence is therefore more volatile, more exposed and more difficult to protect.

Other countries do not have the luxury of domestic oil and gas resources. Their only option is to rely entirely on imports. The UK is different: we have proven reserves, existing infrastructure, and a skilled workforce capable of meeting a substantial share of our own demand. Every barrel and every cubic metre produced here supports the economy, pays taxes, sustains jobs and supply chains, and reduces reliance on imports that carry higher emissions and are vulnerable to global disruption. Maximising domestic production is not an alternative to the energy transition; it is a prerequisite for a resilient and affordable transition.

The analysis demonstrates that this trajectory is not inevitable; with a stable, competitive and predictable fiscal and regulatory policy framework, significant capital could still be mobilised across oil and gas, in addition to offshore wind, carbon capture and storage

1 ELECTRIFICATION
Floating windfarms will power the rigs used to extract oil and gas and bury CO2

2 HYDROGEN PRODUCTION
Natural gas is pumped ashore and broken down into hydrogen, for heating homes or powering vehicles, plus waste CO2



4 CO2 STORAGE
The captured CO2 is then pumped back out to sea for permanent storage deep under the seabed

3 CO2 CAPTURE
Hydrogen plants, power stations and factories will capture the waste CO2 they generate – so it never enters the atmosphere

(CCS), and hydrogen. These energy vectors are not competing alternatives; they are interdependent components of the energy transition. A strong domestic oil and gas sector underpins supply chains, skills and infrastructure that are essential for delivering offshore wind, CCS and hydrogen at scale.

Our Business Outlook report is not a call to temper ambition, but a call to align ambition with delivery. Energy security, resilience, affordability and decarbonisation must progress together. That requires recognising an ongoing need for oil and gas, valuing domestic production and ensuring that investment decisions are encouraged. It also requires accelerating delivery in offshore wind and CCS, addressing structural barriers and enabling self-sufficient markets.

The UK retains a genuine opportunity to shape its energy future. By working together, government, industry and investors alike can provide the certainty and stability needed to sustain domestic energy production, attract long-term investment and support a well-managed energy transition. The evidence in this report highlights both the challenges and the solutions available. With clear policy signals, a predictable investment environment and a shared commitment to delivery, the UK can strengthen energy security, protect competitiveness and build confidence in our energy future.

David S. Johnson

SECTION 1:

KEY MESSAGES

- **Domestic oil and gas production is a strategic pillar of national resilience and a foundation of the UK economy. It supports tens of thousands of jobs, it is more reliable, less carbon-intensive than imports, and far less vulnerable to geopolitical disruption.** Policy, not geology, is hampering investment into the basin and damaging the UK's ability to produce homegrown energy.
- **Business sentiment across OEUK's member base continues to decline,** the current fiscal and regulatory regimes are hampering the UK's investability.
- **By maintaining the Energy Profits Levy (EPL) until 2030, the UK Government risks foregoing a £50 billion investment opportunity** and an additional £5bn in corporation tax over next decade in addition to greater payroll tax and a positive impact on the balance of payments. This opportunity is within reach, but unlocking it requires an investable fiscal and regulatory regime to strengthen energy security and reduce our reliance on imports.
- **Consolidation across the UK Continental Shelf (UKCS) signals that operators are adjusting to a more demanding business climate marked by rising costs and constrained investment.** One of the clearest ramifications has been an increase in the number of mergers and the formation of new entities as operators adapt to increasingly challenging conditions.
- **Our risked pipeline of offshore energy projects show that the offshore energy sector is likely to invest around £120 billion over the next 10 years,** with risked capital expenditure totalling £17 billion in oil and gas, £86 billion in offshore wind and £20 billion in carbon capture and storage (CCS) and hydrogen.

- **Policy and network costs are now the dominant contributors to UK energy bill growth.** Recent funding for transmission upgrades and social obligations is weighing on households and business tariffs.
- **Allocation Round 7 (AR7) pushed the UK's offshore wind sector closer to Clean Power 2030,** allocating 8.4GW of awards to projects across England, Wales and Scotland. To realise this capacity by the end of the decade we need to continue to support and invest in UK supply chains.
- **A recent spike in energy prices caused by the conflict in the Middle East could see a rise in inflation,** domestic energy supplies limit the UK's exposure to such events.
- **Peak gas demand remains as high as ever, demonstrating the need to maintain resilient supply.** While average gas use for power generation has fallen as electricity demand grows and renewables expand, peak day requirements continue to rely on secure and readily available domestic gas supply.
- **Domestic gas supply is not a residual commodity; it is a strategic asset that underpins the resilience of the entire UK energy system.** OEUK modelling indicates that introducing a stable, predictable fiscal and investment regime could unlock up to £25 billion of potential investment into gas projects, in turn unlocking an additional 230bcm to forecast gas production, significantly reducing our reliance on high-carbon imports.

SECTION 2:

INTRODUCTION

The UK is entering a decisive period in which domestic energy production, investment, and policy choices will determine whether we remain an energy-producing nation or accelerate towards a high-import, high-emissions, low-resilience future. The UK's energy system is at an inflection point. Decisions taken over the next 12 months will shape not only how energy is produced and consumed, but the resilience of critical infrastructure, the competitiveness of our industries and the UK's exposure to geopolitical risk for decades to come.

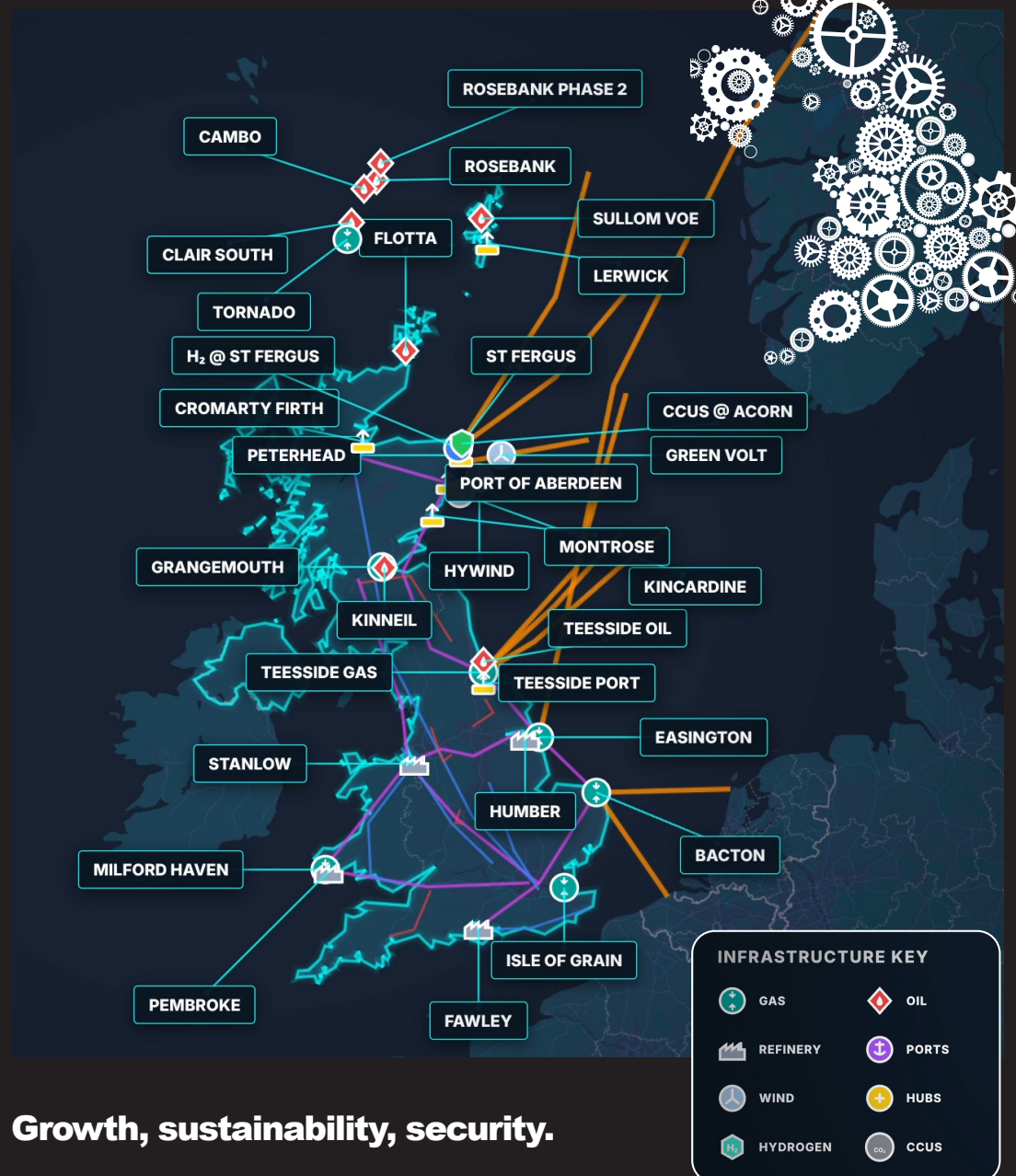
Evidence presented in this report shows that the UK's energy system is at a critical juncture. There remains sustained demand for energy from a range of sources, with oil and gas currently supplying 75% of our energy consumption needs, while electricity demand forecast to grow materially as transport, heating and parts of industry electrify. At the same time, domestic oil and gas production is declining at a pace that exceeds demand reductions. This divergence is not being driven by geology, but by investment decisions shaped by the current fiscal, regulatory and policy conditions.

Alongside this, the UK has made significant progress in the development of its offshore renewables' capacity. Our offshore wind sector has steadily grown and is expected to account for the largest share of capital investment across the UKCS over the coming decade. This expansion is central to decarbonising the power system and meeting our Clean Power 2030 objectives. However, delivering on our domestic potential for offshore wind will require an integrated offshore energy system. Offshore wind growth will benefit directly from the capabilities rooted in the oil and gas sector, while oil and gas continue to provide flexibility and security as electricity supply becomes more intermittent. A policy-driven decline in domestic oil and gas capabilities could have consequences for the pace, cost and deliverability of low-carbon technologies.

This report sets out the evidence underpinning these conclusions, examines the implications of current trajectories and identifies the policy conditions that influence investment and energy system resilience. It also outlines the upside potential that could be achieved if fiscal and regulatory regimes are supportive of homegrown energy. At its core, the report focuses on the practical choices required to deliver the energy transition. While, strengthening energy security, protecting affordability and accelerating decarbonisation through an integrated offshore energy system.

The opportunity: Integrated industrial future

Back a modern industrial UK,
secured by homegrown energy.



Growth, sustainability, security.

SECTION 3:

SUPPLY AND DEMAND TRENDS

Energy Consumption

Energy lies at the heart of the UK's economy, fueling industries, powering transportation, and keeping homes warm. It propels innovation, is the source of tens of thousands of jobs and is a primary driver of economic growth. Maintaining a reliable and affordable energy supply ensures economic and social stability. The UK's ability to harness its own natural resources provides energy security and resilience, shielding our future from the uncertainty of global markets and geopolitical tensions. In a world defined by rapid change and growing risks, the source of our energy supply is more important than ever.

Shifting Trends in UK Energy Intensity

Over the past 30 years, the UK has seen a shift in energy consumption patterns, as a nation our energy intensity has lowered significantly. Since 1995, the energy intensity of the UK, measured as terajoules per million pounds (TJ/£ million) of GDP, has markedly decreased. In 1990, the figure stood at 4.71TJ/£ million, but by 2023 it had dropped to just 1.91TJ/£ million¹, representing a 59% reduction. These changes reflect evolving habits in energy consumption and efficiency, marked by the following:

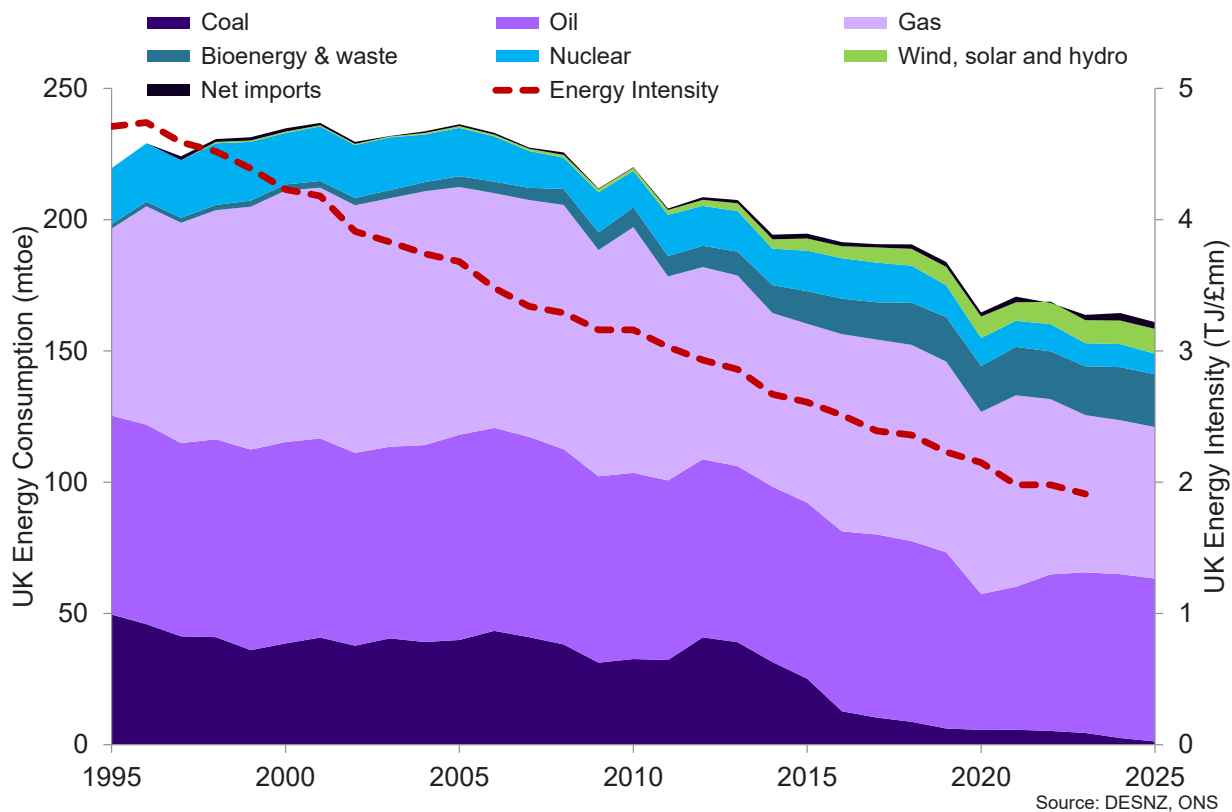
The UK's transition to a service-led economy and the subsequent loss of domestic heavy industry and manufacturing capacity

Shifts in household and technological practices leading to decreased per capita energy demand

Adaptations in energy consumption driven by policy initiatives and changing consumer preferences

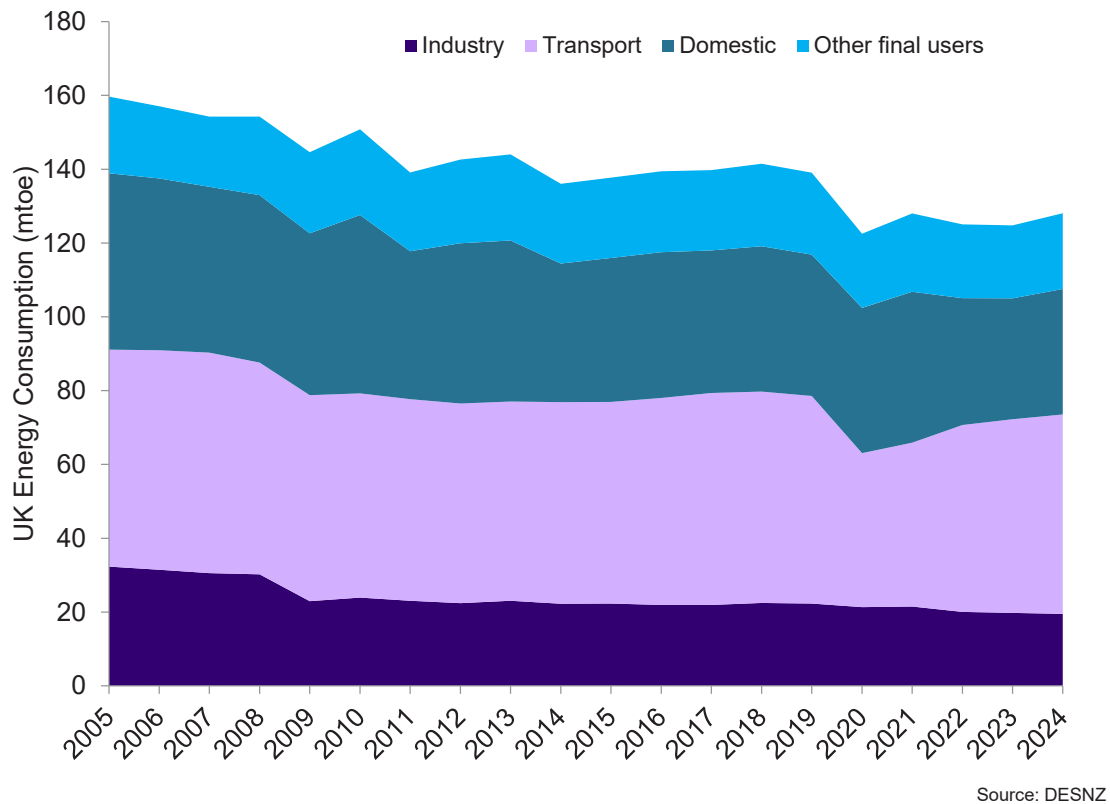
¹ <https://www.ons.gov.uk/economy/environmentalaccounts/datasets/ukenvironmentalaccountsenergyreallocatedenergyconsumptionandenergyintensityunitedkingdom>

Figure 1: Deindustrialisation and energy efficiency improvements have seen UK energy intensity reduce by almost 60% over the past 30 years.



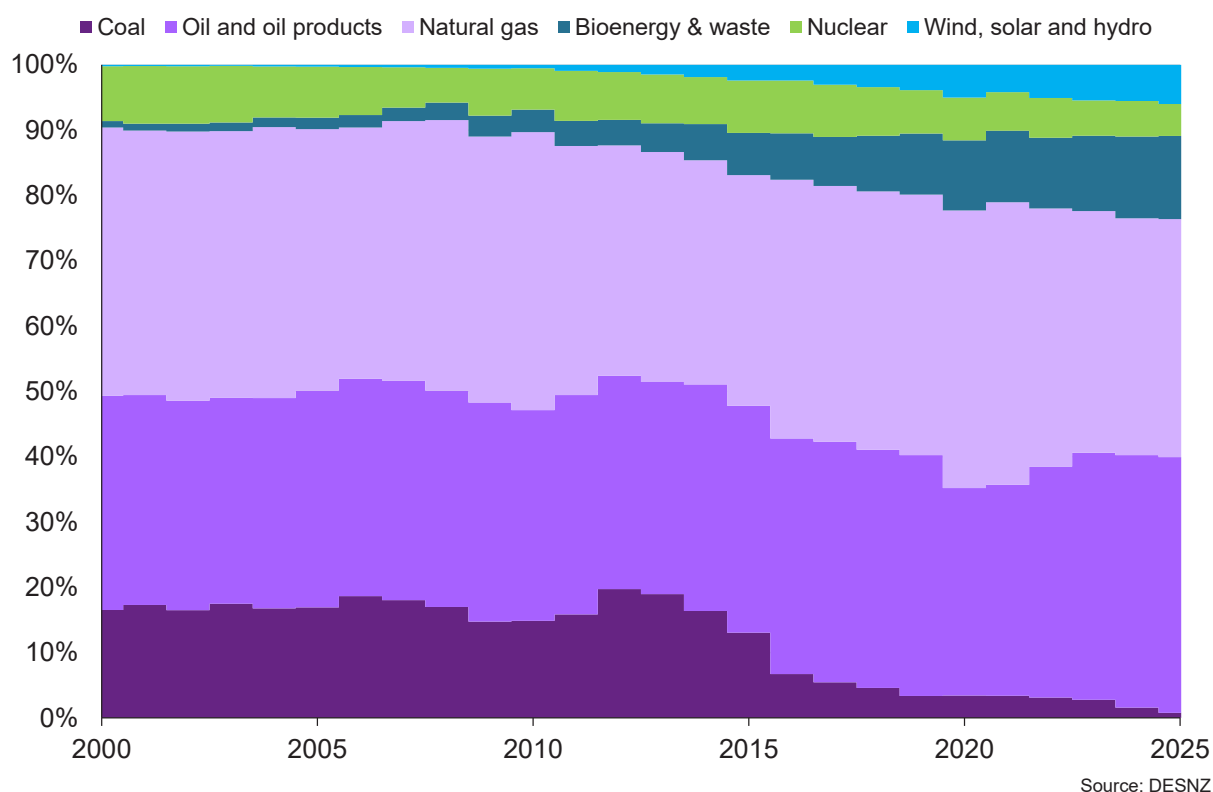
UK energy consumption once again fell last year. This downward trend was driven by a significant 5% drop in industrial energy consumption, reflecting ongoing shifts in the UK's economic structure away from heavy industry and manufacturing. Major closures, such as Grangemouth and Lindsey, and Mossmorran, have significantly reduced the UK's industrial capacity. The chemicals sector has also seen sharp contraction, driven in part by persistently high industrial energy prices in the UK, among the highest in Europe.

Figure 2: Deindustrialisation has meant that UK industry energy demand has fallen by 40% in the last 20 years.



Domestic energy consumption declined by 1%, underlining the impact of improved household efficiency measures, technological advancements, and changing consumer behaviour. Notably, these reductions occurred despite falling oil and gas prices, which might typically be expected to incentivise greater usage. This continued decrease in energy intensity aligns with the country’s broader efforts to transition to a more sustainable, service-led economy and highlights the success of both market and government-led initiatives aimed at reducing energy demand. Although declining energy intensity reflects efficiency improvements and economic restructuring, it also highlights the risk that reduced energy demand is, in part, being driven by a contraction in domestic manufacturing and industrial activity.

Figure 3: Oil and gas remain the UK's primary energy sources, supplying 75% of domestic energy needs.



Oil and Gas

The UK's energy system has, for the past 50 years, been dominated by the consumption of fossil fuels. Since the 1970s, coal, oil and natural gas have served as the backbone of the nation's energy system, powering everything from heavy industry and transportation networks to residential heating and electricity generation. In recent years, the energy mix has seen a gradual trend of diversification, with record investment in renewable energies and improved energy efficiency measures. Yet fossil fuels, crucially oil and gas, remain ever-present in our overall energy consumption mix, supplying approximately 75% of domestic energy needs today and continuing to play a vital role through the transition to Net Zero. They are expected to provide half of the energy required over the next 25 years and still meet one-fifth of UK energy demand in 2050.

Beyond their foundational role in powering the UK's economy, oil and gas also play a critical role in offering flexibility in the country's energy system. As renewable sources such as wind and solar become increasingly prominent, their inherent intermittency requires dependable fuels and energy storage that can respond quickly to fluctuations in supply and demand. Maintaining domestic oil and gas infrastructure, including terminals, offshore platforms, pipelines and storage facilities, remain vital in ensuring that energy is available during periods of peak demand or when alternative supply sources dip. This adaptability is indispensable for maintaining stable energy supplies and the economy.

The importance of maintaining domestic infrastructure is clearly illustrated by peak-day gas demand, which remains as high as ever. As the UK becomes more reliant on intermittent electricity sources and overall electricity demand grows, average gas use for power generation has declined – yet peak-day requirements continue to underscore the importance of a readily available domestic gas supply.

Analysis done by National Gas shows that although renewable power generation has grown, peak-day gas demand has risen in recent years. Last year, the highest intraday peak required 27.05GW of gas supply capacity, 9% higher than the 2021 peak (24.74GW), despite a 30% reduction in the average daily demand for gas over this period. As we look ahead the call on dispatchable generation will be higher than the levels that we have seen to date, as the size and regularity of electricity generation swings increase.

Electricity

The growth in UK electricity consumption over the coming decades is expected to be substantial, as we transition towards a Net Zero economy. Reaching Net Zero via the CCC's Balanced Pathway approach would see overall electricity demand grow by almost +150% over the course of the next 25 years. This growth is primarily driven by a rise in electrification of transport, slow but steady growth in domestic heat pumps and a shift for industry towards electricity as their primary source of energy.

This is in stark contrast to the trend that we have seen in the past 25 years, with electricity demand consistently declining year on year until 2024. Declining demand has been driven by domestic deindustrialisation and greater energy efficiencies, rather than a shift away from electricity as an energy source. In fact, as a proportion of total UK final energy consumption, electricity has steadily increased from 16.5% in 2000, to 17.7% in 2024.

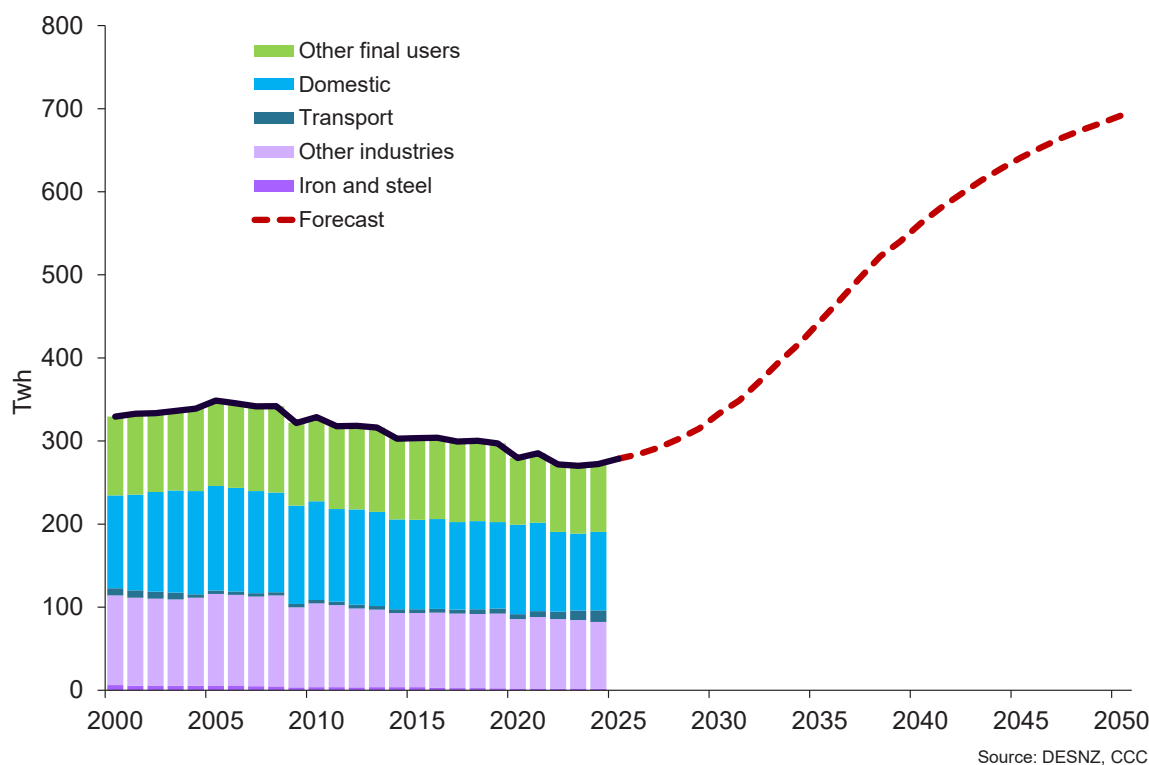
UK electricity demand has reached a pivotal moment. After decades of decline, 2024 marked a reversal, with electricity consumption increasing by 1.5TWh (+0.5%). The most notable growth came from transport and domestic sectors, this upward trend persisted into 2025, growing by a further 3.9TWh (1.4%). A key driver of this growth is the rapid expansion of electric vehicles (EVs) across the UK, with the almost one-quarter (23.4%²) of new cars sold in 2025 being electric. Alongside this, lower electricity prices and cooler temperatures have expanded the demand for electricity over the past 12 months.

Imports

The UK has been a net importer of energy since 2004, and our reliance on imports to meet energy demand has steadily grown over the past 20 years. The vast majority of what we import is oil and gas. While the UKCS still plays a vital role in our energy system, it supplies just over 50% of our total demand for oil and gas. There is, consequently, a need to import energy from overseas. The volumes of these imports are highly sensitive to domestic supply and demand, as well as similar market dynamics in mainland Europe. When UKCS production declines, imported volumes rise to fill the gap, increasing the UK's exposure to geopolitical risks and price fluctuations. Conversely, robust domestic production supported by an enabling fiscal and regulatory regime can mitigate the need for imports, restoring greater control over the UK's energy security.

² <https://www.rac.co.uk/drive/electric-cars/choosing/electric-car-statistics-and-data/>

Figure 4: Electricity demand is at a turning point, with demand expected to grow by +150% by 2050.



Since 2000, the UK has imported 935 billion cubic metres (bcm) of natural gas, about a quarter of which came as LNG. While imports of LNG have increased in recent years, this is not solely because of declining UKCS production. Since the Russian invasion of Ukraine, the UK has increasingly acted as a transit hub for gas to Europe, through major LNG terminals, Isle of Grain and South Hook, and interconnector pipelines IUK and BBL to Belgium and the Netherlands, respectively. LNG imports come with a carbon footprint three times higher than domestically produced natural gas and greater geopolitical risks.

The relationship between UK imports and European supply has grown more complex in the wake of the Ukraine–Russia war. Disruptions to pipeline gas from Russia forced European countries to pivot rapidly towards LNG, intensifying competition for global cargoes and driving up prices. As a result, LNG emerged as the primary price setter for European gas markets. This linkage means that UK gas prices are now highly correlated with global LNG spot prices and subject to volatility driven by geopolitical tensions, shipping constraints, and demand shocks in other regions such as Asia.

When European supply tightens, the UK must import more LNG to balance its own market and support continental flows via interconnectors. In turn, this raises domestic prices and exposes consumers and industry to the same risks faced across Europe. Conversely, when European markets are well supplied, UK import needs and prices can ease, although the underlying reliance on LNG persists. In summary, a shift towards increased LNG reliance increases exposure to global market forces and geopolitical risks, underscoring the importance of maintaining robust domestic supply and flexible infrastructure.

Energy Production

UKCS Production Outlook

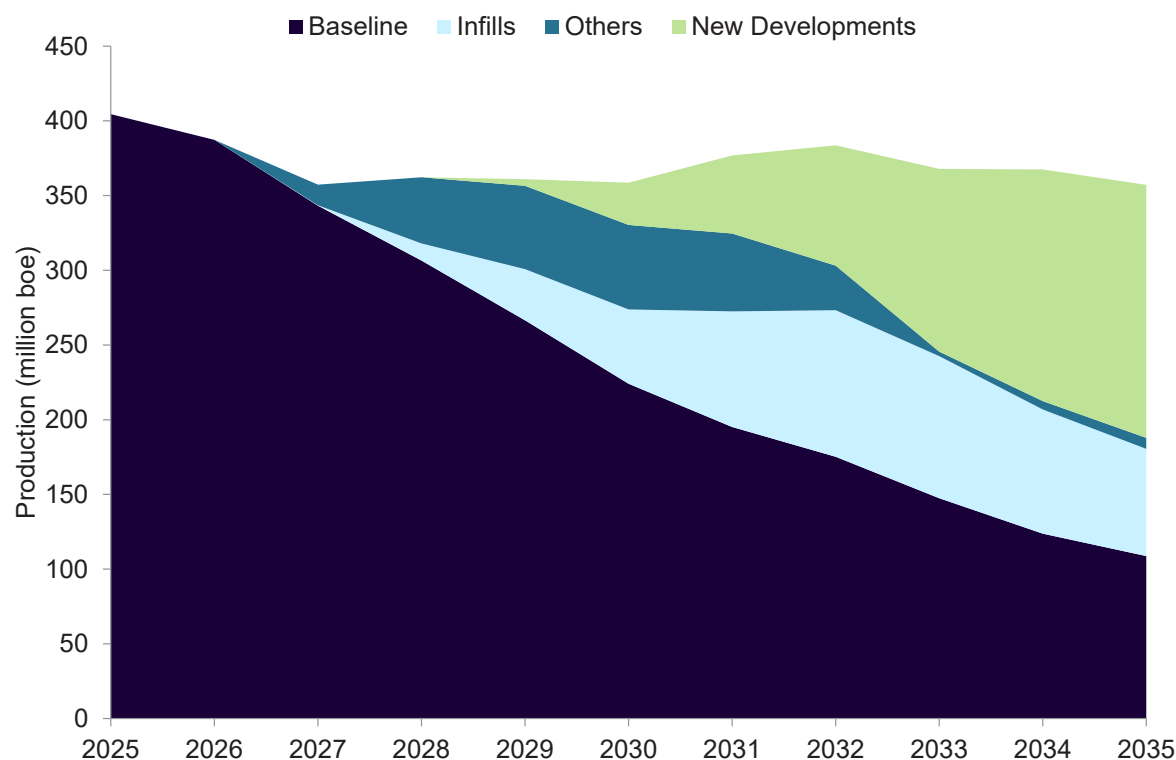
While production projections from the NSTA and government have declined over recent years, the geology has not. The subsurface still holds untapped potential – what is needed is a new perspective. In 2019, the NSTA projected that 6.5 billion boe could be recovered from the UKCS between 2025 and 2050. At the time, its strategic theme was maximising economic recovery from the basin, with a challenge for the sector to achieve 1.3 million boe/d in 2030. Since then, that projection has been routinely downgraded and now stands at just 0.6 million boe/d, and 3.8 billion boe total recovery between 2025 and 2050.

The opportunities identified in 2019 still exist today. While commodity price volatility has always been a challenge, it is the fiscal and political environment that has driven companies to defer or cancel both short and long-term investment plans. The downgrade from 2019 estimates reflects investor confidence, not a reassessment of the basin's geological potential.

Ahead of the 2025 Autumn Budget, OEUK's operator members provided insight into the opportunities that they are not currently pursuing but would consider investing in under a reform to the EPL in 2026, along with a renewed approach to licensing. These results highlighted an additional 111 projects, requiring £50 billion in private capital investment producing 3.5 billion boe. Developing these projects would almost double the UKCS' output over the next 25 years.

The alternative is clear, a failure to invest in domestic resources, increases the UK's reliance on energy imports. Whereas, maximising homegrown energy production reduces emissions, strengthens the UK's balance of payments, safeguards jobs and secures long-term energy resilience at a time of heightened geopolitical uncertainty.

Figure 5: The geological potential is being limited by current policies, the UKCS could produce more than is currently expected.



UK Electricity Generation

The rapid expansion of intermittent electricity generation sources, such as wind and solar, has fundamentally transformed the UK's power landscape. These technologies have become increasingly prominent in the national grid, delivering significant volumes of low-carbon electricity, but also introducing greater variability in supply due to their dependence on weather conditions. As a result, the UK now experiences more frequent fluctuations in the supply of electricity generation, particularly during periods of low wind or reduced sunlight.

Historically, the UK has relied on the contributions of a significant fleet of gas and nuclear power stations providing a stable flow of electricity to the grid. While investment into new nuclear power stations was announced in the 2025 comprehensive spending review, any expansion upon the current installed nuclear capacity is unlikely to come before the mid-2030s. Coupled with the government's targets of achieving Clean Power 2030, this leaves a growing reliance on flexible, fast-response solutions to underpin the grid's resilience.

To address these challenges, there is a rising need for large-scale battery storage and other flexible technologies, alongside the current role of combined cycle gas turbines (CCGT), that can balance supply in real time. Batteries offer the ability to store surplus electricity generated during periods of high renewable output and release it when generation falls short, helping to smooth out the peaks and troughs inherent to intermittent sources.

Gas Security of Supply in Focus

Accelerating Production Decline Threatens UK Energy Security

A policy-driven acceleration in the domestic supply of gas now risks undermining the UK's energy security, exposing the UK to wider geopolitical and environmental risks through an increasing reliance on imported fuels. Policy that accelerates the decline directly increases the likelihood of imbalances, not because domestic resources are depleting naturally, but because infrastructure becomes uneconomic prematurely.

The UK's gas system is one of the most highly integrated networks in Europe, and this integration brings both resilience and vulnerability. The system relies heavily on domestic production to sustain economic throughput levels. If domestic supply drops too quickly, several key pipeline systems, terminals and hubs face early cessation because fixed operating costs are spread over fewer units of throughput.

Evidence from the independent report commissioned by OEUK (Westwood) highlights several structural risks³:

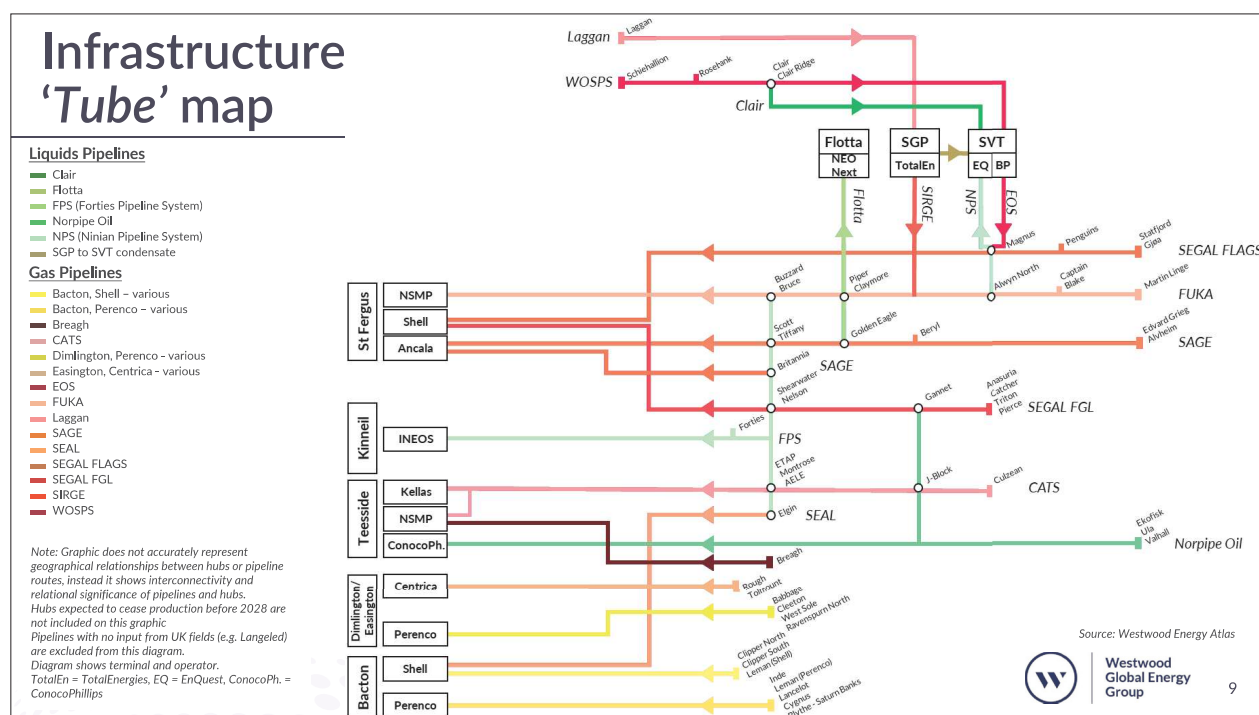
75% of UK gas production is processed at just two terminal locations – St Fergus and Teesside. These terminals depend on parallel operation of associated liquids infrastructure and upstream hubs. A decline in domestic production therefore creates concentrated systemwide risks.

St Fergus alone handles 25–50% of total UK gas flows, depending on operating conditions. The complex processes gas from multiple major systems (FLAGS, FGL, SAGE, Vesterled and FUKA). A failure, outage or economic cessation at St Fergus would simultaneously remove multiple feed streams, creating a single point of failure issue with far reaching consequences for national resilience.

Offshore systems are deeply interdependent. Many hubs export gas and liquids through separate pipeline routes, meaning the shutdown of one liquids route can collapse the economics of the corresponding gas route, and vice versa. This 'house of cards' risk is particularly acute outside the Southern North Sea, where almost all fields require both gas and liquids export routes to remain viable.

³ <https://oeuk.org.uk/product/uk-produced-gas-and-its-role-in-future-security-of-supply/>

Figure 6: UKCS infrastructure is closely intertwined, early closure of key assets risks irreversible losses of the UK's capability to supply domestic energy.



Without sufficient domestic volumes, throughput falls below economic thresholds, triggering early closures of key terminals and infrastructure. Once closed, these assets cannot be readily reinstated, permanently reducing capacity and flexibility.

Supporting domestic production materially reduces system exposure to imbalance risks by limiting reliance on LNG imports and our exposure to geopolitics. Imported LNG volumes also come with significantly higher scope 1 & 2 emissions, at least three times that of domestic or Norwegian pipeline gas, but more importantly for system resilience. LNG import capacity is currently constrained; downslope constraints in the southeast network limit how much LNG can be transported northwards during peak periods. Maintaining diverse domestic entry points is essential to managing peak day flows.

Imbalances are possible in low probability, high stress scenarios. However, such scenarios become materially more likely if domestic production is allowed to decline more rapidly than geology dictates. The UK's highly integrated gas system relies on steady domestic throughput to remain economically and operationally viable. A policy-driven decline undermines infrastructure resilience, increases exposure to constrained import routes and elevates the risk of supply-demand imbalance. Conversely, creating an investable fiscal environment that sustains domestic production is the most effective resilience intervention available to government.

The decline in throughput across gas infrastructure is not simply a function of basin maturity but the direct result of policies that have decimated the role of domestic gas in the UK's energy system. NESO evidence confirms that peak day gas demand has not materially declined, and under slower decarbonisation scenarios in the early 2030s, it remains close to today's levels, with shortfalls emerging in one in twenty peak events if major infrastructure is unavailable. This shows that despite a policy-driven reduction in domestic production, the system continues to require substantial gas deliverability to maintain energy security.

Domestic production has been intentionally reduced by policies, which means that less gas flows through pipelines, terminals and storage sites. This has a profound commercial effect: infrastructure designed around stable flow patterns and scale now faces lower utilisation, more volatile revenue, and diminishing capacity to recover fixed costs. Markets perform well when policy direction is stable, predictable, and consistent with the physical needs of the system, but when throughput is reduced by policy rather than by geology, the commercial incentives for infrastructure investment and maintenance fall out of alignment with system resilience requirements.

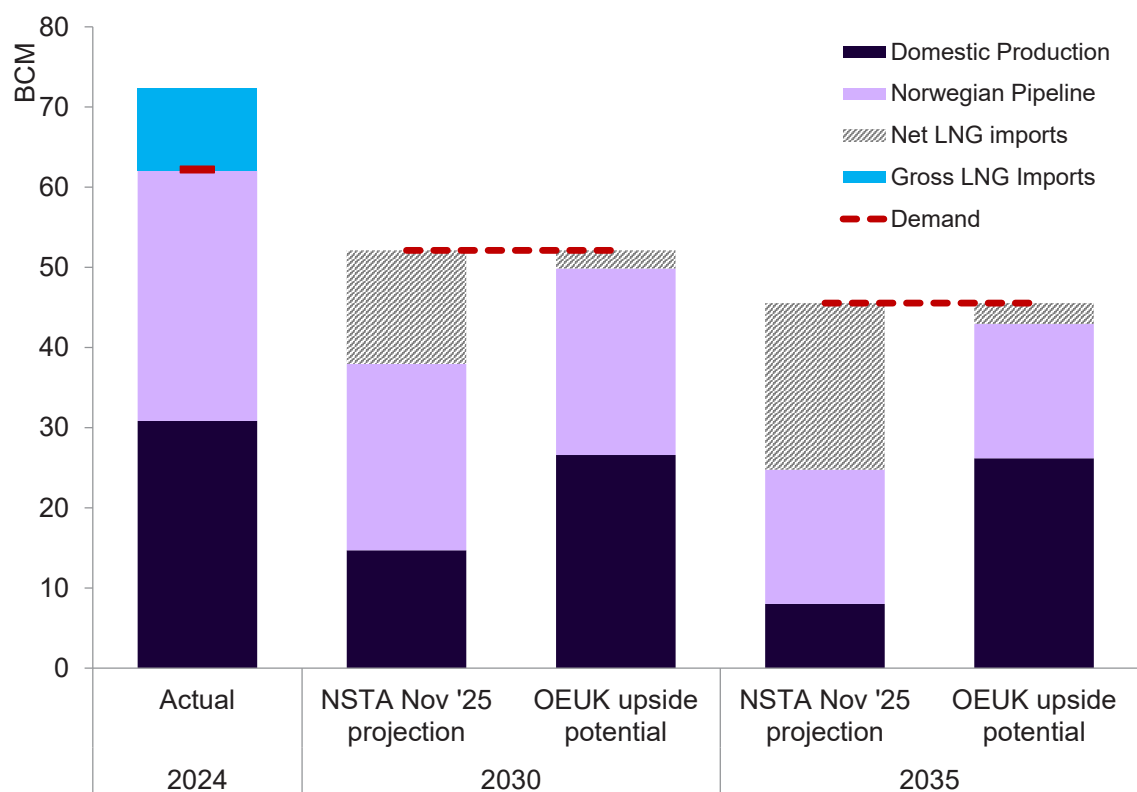
Energy security is but one of the benefits of strong domestic gas production. The socio-economic uptick from an increased or maintained domestic supply of gas is significant. In summary, producing gas domestically, improves the balance of payments, increases tax receipts, reduces job losses, brings down emissions and maintains supply chains that are vital for the entire energy transition.

Our modelling shows that under the NSTA's current gas projections⁴, alongside NESO's average demand and Norwegian pipeline forecasts, the UK is expected to rely on LNG imports for over a quarter of its gas supply by 2030 and almost 50% by 2035. For context last year, the UK relied on LNG for just 14% of its total gas supply, much of which was exported via the BBL and IUK interconnectors to service continental European demand.

An increased reliance on LNG is not inevitable, leading up to the Autumn Budget 2025, OEUK members submitted information on projects that would be achievable under a reform to the current regulatory and fiscal regime. These 111 projects totaled £50 billion in private investment and 3.5billion boe in reserves & resources, of which roughly £25 billion and 1.3billion boe (230bcm) were gas projects. Under these conditions, the UK could reduce its reliance on LNG imports to 4% and 6% in 2030 and 2035, respectively. Reducing emissions, increasing tax receipts and maintaining jobs.

⁴ <https://www.nstaauthority.co.uk/data-and-insights/insights-and-analysis/production-and-expenditure-projections/>

Figure 7: The decline in domestic gas production is not inevitable; under a supportive fiscal and regulatory regime the UK could reduce its reliance on LNG imports.



SECTION 4:

THE CURRENT BUSINESS ENVIRONMENT

Last year, Ofgem unlocked £28 billion in investment to maintain a safe, secure and resilient energy grid and to upgrade and expand capacity to meet growing demand. This investment will upgrade power and gas grids, most of the funding, £17.8 billion, will go towards maintaining Britain's gas networks, with the remaining £10.3 billion going towards strengthening the electricity transmission network. By 2031, this investment is set to rise to an estimated £90 billion, one of the largest commitments ever made to modernise UK infrastructure.

While the level of investment into our onshore networks is significant, it is exceeded by the level of capital investment that OEUK expects to see over the course of the next 10 years (2026-2035) across our offshore energy sector. OEUK's risked pipeline of projects identifies, under the current regulatory and fiscal regimes, capital expenditure of £123 billion, spread across oil and gas, offshore wind, CCS & hydrogen. This is from a total unrisked project pipeline of £246 billion.

The scale of activity that could happen in the UK over the next 10 years is monumental. However, to deliver on our ambitious capacity targets, the UKCS needs to continue to be seen as an investable basin to attract investment and maintain the workforce. Failure to deliver a smooth transition will see our reliance on imports rise, threatening energy security and downgrading the nation's energy resilience.

Our offshore energy system is highly interconnected, an accelerated decline in investment and subsequent production levels of our long-standing oil and gas industry will see supply chains and workforces move overseas in search of work. These are the same supply chains that are crucial for the success of the UK's offshore wind and carbon storage sectors. Recent OEUK supply chain reports have highlighted the transferability of the supply chain currently servicing the UK's offshore oil and gas sector to other offshore energy vectors. Between 50-80% of the required investment in low-carbon offshore solutions can be met by the skills and capabilities currently held within the UK's oil and gas sector.

The risk of supply chain flight is real. In OEUK's 2025 supply chain report⁵, we reported that nine out of ten supply chain companies were already looking overseas to invest outside of the UK. Our 2026 sentiment survey indicates that conditions have either stagnated or deteriorated further. Companies cite reduced project visibility, rising electricity costs, procurement uncertainty, regulatory challenges and an increasingly uncompetitive investment environment as key drivers behind these decisions. Once capital investment, facilities, and skilled workforces move overseas, they are incredibly difficult to re-anchor in the UK. We have a real opportunity to build on the UK's supply chain legacy in the offshore oil and gas sector.

In this context, the risked project pipeline should be understood not simply as a question of the level of investment in upstream energy production but as a test of whether the UK can continue to anchor critical offshore supply chains. Failure to unlock viable investment will accelerate the loss of domestic industrial capabilities precisely at the moment that they are most needed to support offshore wind, CCS, and hydrogen. Lose our oil and gas sector and its supply chains too early, and the UK does not just lose its capability to produce oil and gas but also the skills, supply chains and industrial foundations on which the energy transition depends.

Figure 8: Total risked capital expenditure is set to be dominated by offshore wind over the next 10 years.

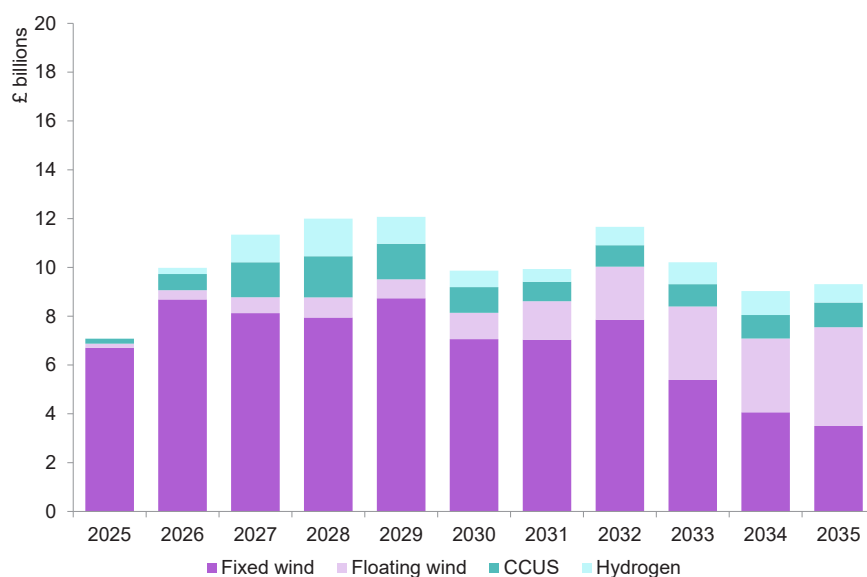
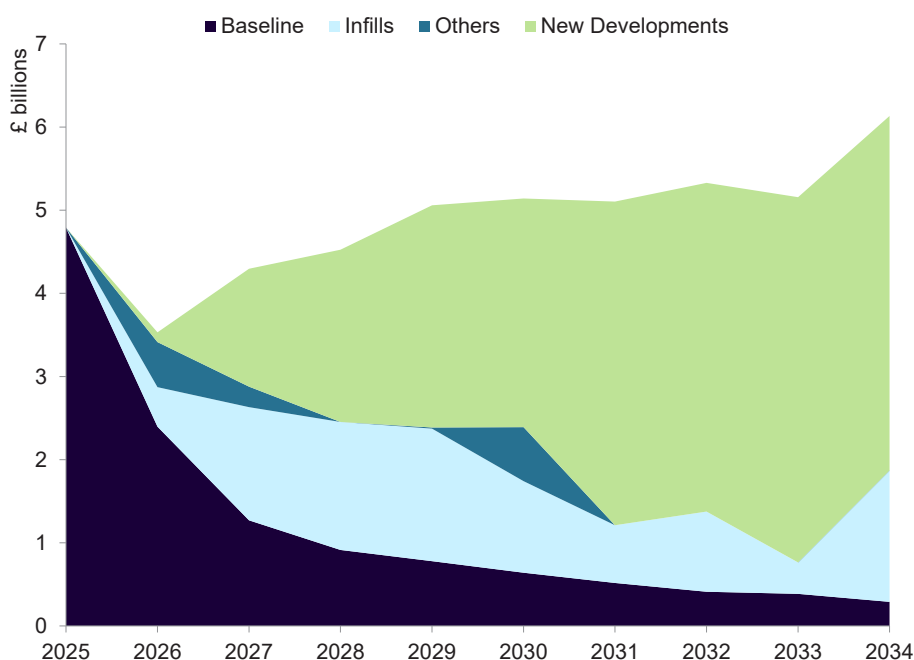


Figure 9: UK upside oil and gas investment could exceed £50 billion in capex with reform to fiscal and regulatory regime.



Oil & Gas

Capital expenditure in oil and gas projects reached a five-year high in 2024, £5.7 billion, with 2025 similarly high, £4.97 billion. While on the surface this rise in capital expenditure may appear as though the sector is in a period of good health, this is in stark contrast with the reality. Investment decisions are not realised overnight, the capital invested over the past two years falls almost entirely under projects that reached Final Investment Decision (FID) during or before the energy crisis. When the UK's investment landscape was vastly different from today, oil and gas prices were trading at a premium to today's prices. Many of these projects reached Final Investment Decisions (FID) before the Energy Profits Levy (EPL) was introduced.

The lens through which we should be viewing the health of our current oil and gas sector must therefore be looking forward to expected activity levels over the next 5 years. The North Sea Transition Authority's (NSTA) November 2025 production and expenditure projections show that capital expenditure is falling sharply, as the impact of an unsupportive fiscal and regulatory regime takes hold. By 2028, capital investment in oil and gas on the UKCS is projected to halve; by the end of the decade, expenditure on decommissioning is likely to be double capital investment.

By contrast, the Norwegian Continental Shelf (NCS) is experiencing a much healthier investment profile. In 2026, the Norwegian Offshore Directorate (NOD) expects investments of NOK 256 billion (circa. £20 billion), more than 4x the level of investment that we expect to see in the UK. Last year was the second-best exploration year in ten years for the NCS. In January 2026, Norway awarded 57 new oil and gas production licenses to 19 companies.

Recent policy uncertainty and frequent changes in fiscal and regulatory frameworks are driving the UK's trajectory. This has resulted in capital flight and an unnecessary decline in domestic production, with skilled workers and capital increasingly moving abroad. Despite the decline, there remain significant potential production opportunities within the UKCS. Without reform to fiscal and regulatory policy, the basin will not be able to fully realise its potential.

Oil and gas consumption over the past five years has fallen by less than 1%. Today, oil and gas continue to supply around 75% of the UK's energy needs; by 2050, they will continue to supply about 20% of UK energy needs. Producing as much of this domestically as possible reduces emissions, promotes UK jobs and reduces our Balance of Payments (BoP) deficit. We are seeing that the rate of decline in domestic production is now determined more by the policy and investment climate than by geology or changes in demand.

In June 2025, an OEUK-commissioned Westwood Global Energy Group report outlined a series of alternative production pathways the UK could take⁵. The report indicated that under a supportive market environment that included significant changes to tax, licensing and regulatory approvals, the UK could unlock up to 7.5 billion boe, almost double the current projections. Conversely, if investor sentiment were to deteriorate further, there is a risk that recovery from the basin could be as low as 2.6 billion boe. The continued deterioration of the UKCS would further increase the UK's exposure to geopolitical shocks, which have become more frequent. Threatening domestic energy resilience and increasing the likelihood of the energy price volatility seen during the energy crisis.

The decisions made over the past 12 months and the year ahead will have a significant impact on the future of the UK's domestic energy supply. Current fiscal and regulatory regimes are hampering the UKCS's reputation as an investable basin. These decisions, in many facets, have irreversible consequences if left untouched for too long. Investment in the UKCS not only adds volumes via new fields coming online but also extends the lifecycle of existing hubs and fields. Failure to invest in new fields, hubs and tiebacks risks the early closure of North Sea infrastructure, increasing operating costs and the loss of opportunities. In many cases, these opportunities are unrecoverable once infrastructure ceases production.

Wood Mackenzie has recently highlighted significant value destruction in the UK oil and gas sector due to extreme fiscal and regulatory uncertainty, causing a major discount on UK asset prices (around \$40 vs. OECD's \$70/barrel), plummeting exploration, rising import dependency and job losses, all stemming from unstable policies like the Energy Profits Levy.

The UK Government must adopt a position in favour of homegrown energy, including oil and gas, as the anchor for the supply chain. This is essential to protect and grow high-value jobs, maintain export competitiveness, enhance energy security, and enable a managed transition to renewables, hydrogen, and CCS. Policies must address these opportunities, prioritising economic growth and job protection, not short-term cost. The UK's strategic policy must be grounded in the reality of sustained demand for oil and gas, the economic, environmental and security benefits of domestic production, and the need for a stable, integrated approach to the energy transition.

⁵ <https://oeuk.org.uk/product/ukcs-outlook-scenarios-consultation-report/>

Wells

A key metric for the health and a strong indicator of the potential future success of the UKCS is the level of well activity that is happening within the basin. A shift in objectives to Maximising Economic Recovery (MER) in the late 2010s had a profound effect on the level of well activity, preceding a strong period for domestic oil and gas production. Curbing the growing trend of energy import reliance seen in the early 2010s.

In contrasting terms, the Energy Profits Levy (EPL) has had an equally profound, yet negative, effect on the level of well activity on the UKCS. 2025 marked the lowest year for well activity since the inception of the UK's offshore oil and gas sector. The sector saw just two appraisal wells and for the first time on record, zero exploration wells were drilled. The last time the basin experienced a troubling decline in exploration and appraisal (E&A) activity was in the mid-2010s. The formation of the NSTA (then OGA), with a central tenet of MER, saw growth of E&A activity between 2018 and 2019 increase by almost 50%. This reflects the industry's willingness to invest if there are supportive fiscal and regulatory regimes in place.

Table 1: Exploration has collapsed: zero wells drilled in 2025 for the first time since the 1960s – driven by policy uncertainty, not geology.

Drilling Activity	Maximising Economic Recovery				EPL			
	2018	2019	2020	2021	2022	2023	2024	2025
Exploration Well Spuds	8	16	7	5	5	9	4	0
Appraisal Well Spuds	9	13	2	5	4	4	2	2
Development Well Spuds	85	112	62	56	46	54	36	39
Total	102	141	71	66	55	67	42	41

Rate of Return

UKCS companies have continued to see historic low rates of return as oil and gas prices in 2025 fell, extending the trend reported in OEUK's 2025 Business Outlook. Returns have been hampered by low commodity prices, stagnant production output and high taxes. Reflected in the latest ONS net rate-of-return figures for organisations operating on the UKCS, which have been negative for the past 7 consecutive quarters (Q4 2023 – Q2 2025), averaging -2.6% for the past 12 months to June 2025. This is the longest sustained period of negative net rate of returns on record for UKCS companies, surpassing the 5-quarter period sparked by negative oil prices and record low gas prices beginning in Q1 2020.

Such poor performance illustrates further the need for reform; organisations operating in the UKCS are no longer making the profit necessary to warrant a windfall tax. With long-term oil and gas contracts trading at a deficit to the spot market, prices are not expected to return to those levels sustained earlier in the decade.

Evolution of the UKCS Operator Landscape

The organisational demographic of the UKCS has shifted in recent years, from a diverse operator landscape in 2019 toward a more concentrated basin in 2025. Last year, there was a growing trend of consolidation in oil and gas operators. The number of entities operating within the UKCS has dramatically fallen this decade. The consolidation of resources means that when accounting for all completed and soon-to-be-completed mergers and acquisitions, the top five producing operators (2025 production) accounted for more than 70% of the total production of the basin. This is in stark contrast to 2019, where the top five producing companies accounted for just over half of the total production. In total, there were 50% more operators in 2019 than there will be by the end of 2026.

While no one factor has led to the increasing trend of consolidation, the culmination of regulatory/fiscal pressure, future uncertainty within the basin, falling rates of returns, and an aging basin have all played their part. The fiscal and regulatory regime in 2025 paints a very different picture from that of 2019. Headline tax rates in 2019 were 40%, licensing rounds were annual and the NSTA's (then OGA) principal objective was to maximise economic recovery (MER). Today, there is continued fiscal pressure from the EPL, bringing the headline tax rate up to 78%; annual licensing rounds have ceased and the NSTA has progressively transitioned away from its principal objective of MER. While the end of the EPL has been set, 2030, energy prices have not been at the levels that brought about the windfall tax.

Offshore Wind

Growth in Capacity

The past 12 months have been positive for the development of the UK's offshore wind sector. In 2025, 114 turbines were installed, adding 1.3GW of capacity to the system. In total, the UK now has an operational capacity of 15.5GW, enough power generation capacity to power 11-15 million homes. The entire project pipeline, with funding support following January's Allocation Round 7 (AR7) results, now stands at 38GW, requiring just 5GW from Allocation Round 8 (AR8) to meet the lower 43GW target set out in NESO's CP30 guidance.

The expansion in funding awards in recent years has meant that Offshore Wind is now the primary source of capital investment on the UKCS, surpassing that of even oil and gas projects. OEUK estimates that UK offshore wind capital investment is likely to exceed £10.5 billion in 2026, £2 billion more than was spent last year. The rise in capex reflects continued commitment to UK offshore wind project development and construction, despite ongoing cost pressures, alongside policy and market uncertainties.

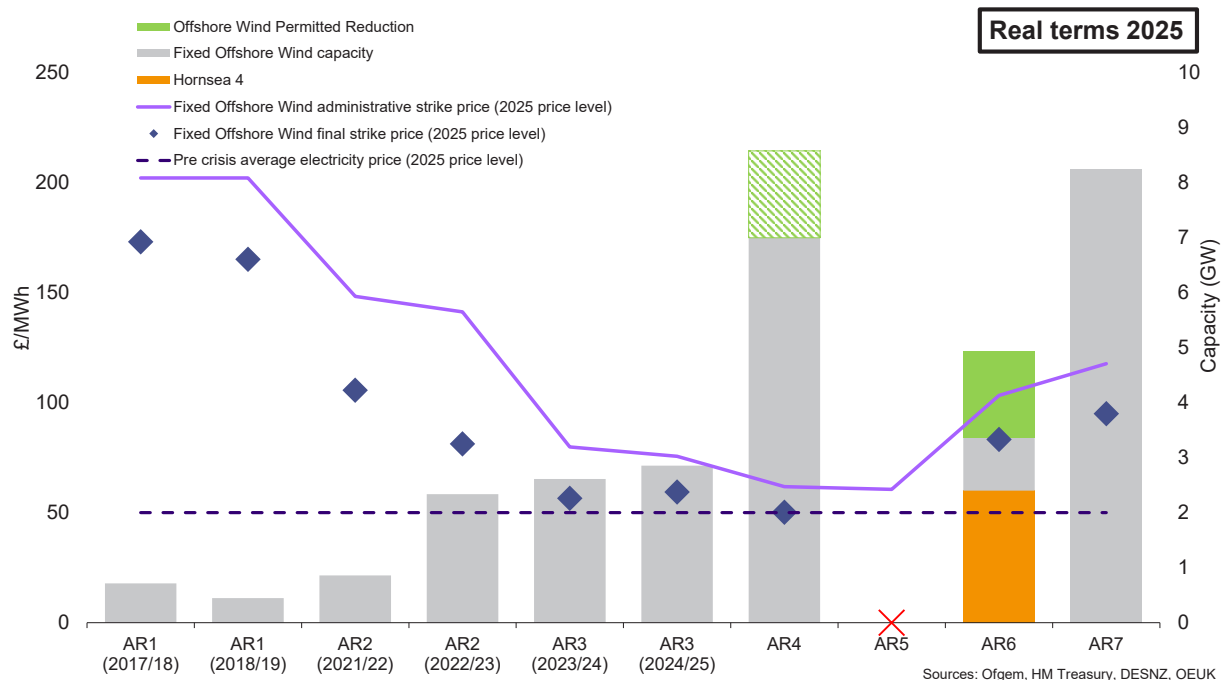
Allocation Rounds 7 & 8

In January, the UK government cemented its commitment to reaching its Clean Power 2030 (CP30) targets, securing the largest offshore wind CfD award to date. With 8.4GW of capacity allocated in AR7, matching the minimum level of capacity awards required to maintain progress towards CP30, outlined in OEUK's 2025 Wind Insight⁶.

Bottom-fixed projects cleared at around £91/MWh (2024 prices), while floating wind demonstration projects achieved strike prices of £216/MWh (2024 prices). Of more than 26 GW of eligible capacity, close to one-third was awarded, supported by an expanded CfD budget (from £900 million to £1.8 billion), an extension to the CfD period to 20 years and continued investor interest in the UK's offshore wind market.

⁶ <https://oeuk.org.uk/product/offshore-wind-insight-2025/>

Figure 10: Allocation Round 7 was the largest allocation round in UK history, awarding support to 8.4GW of offshore wind projects.



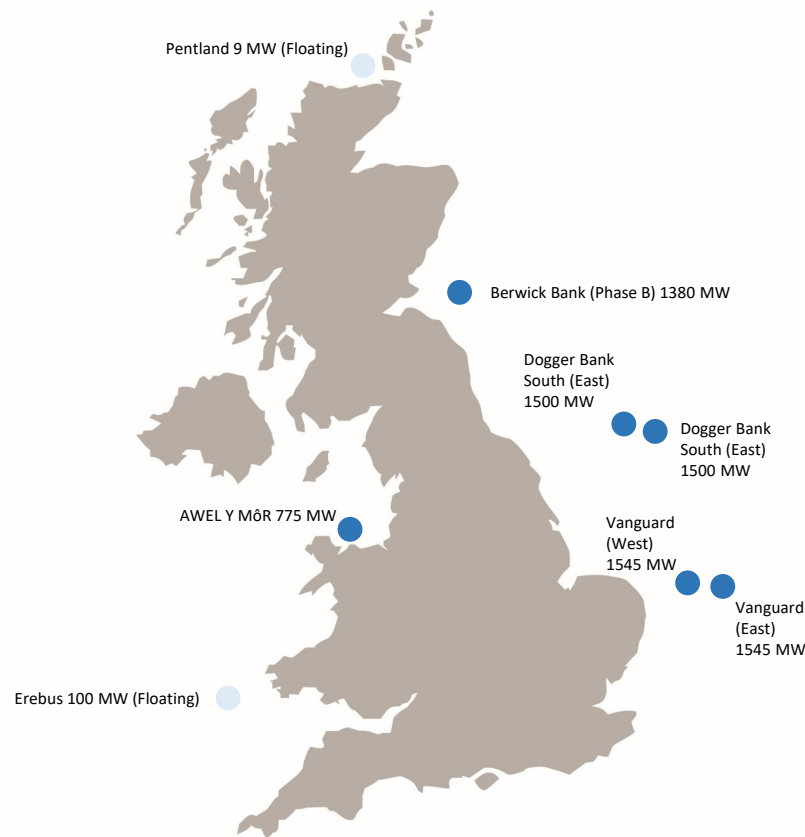
Awards were concentrated among a handful of large developers. RWE is the largest winner from the allocation round, securing almost 7GW of capacity spread across 5 projects. SSE Renewables was the second greatest recipient of CfD awards, securing funding for its 1.4GW Berwick B project. The Berwick bank project is the first new Scottish project since 2022 and the largest planned offshore wind project in the world.

Project delivery for AR7 projects is scheduled for the turn of the decade, with more than 5GW targeting first power in FY30/31, while RWE's Norfolk Vanguard projects aim for earlier delivery in FY28/29 and FY29/30.

Progressive steps were made for the UK's floating offshore wind sector, with two demonstration floating offshore wind projects being awarded funding; the 100-MW Erebus project led by Simply Blue Group and the 92.5-MW Pentland project led by Copenhagen Infrastructure Partners.

Geographically, the contracts awarded in AR7 are weighted towards the waters immediately off the coasts of England and Wales. This distribution is primarily driven by a requirement to optimise project economics and capture the lowest available prices. By spreading capacity awards across regions with mature infrastructure, the government aims to diversify delivery pressure and prevent cost inflation. This strategic focus ensures that projects can leverage established supply chains to remain cost-competitive, thereby securing the most economical path toward CP30.

Figure 11: Contracts awarded in AR7 are weighted towards England and Wales, reflecting a near-term strategy to prioritise high energy demand regions.



Source: DESNZ, OEUK

While this supports delivery certainty, the geographical concentration of projects presents challenges. Pressure on domestic manufacturing capacity, port activity and the availability of installation vessels is likely to ramp up. The availability of installation vessels for one is already experiencing regional strain, with offshore wind projects competing against rising decommissioning activity in the North Sea.

Following the outcome of Allocation Round 7 (AR7), around 5 GW of additional capacity remains to be secured through AR8–AR9 to achieve the 43GW target set out in CP30 requirement, which appears achievable in aggregate. However, this assessment becomes more uncertain when considering the characteristics of projects likely to be eligible for the next two rounds. Most projects remaining in the pipeline are associated with the ScotWind and INTOG leasing rounds and are therefore predominantly located in northern Scotland. This raises a material issue linked to Transmission Network Use of System (TNUoS) charges.

TNUoS charges are levied on electricity generators and suppliers to recover the costs of building, maintaining and operating Great Britain's transmission network, with charges varying by location to reflect distance from centres of demand and network constraints.

For offshore wind, this results in higher costs for projects located further from demand, increasing operating expenditure, raising CfD bid prices and reducing competitiveness relative to projects closer to demand in England. Although AR7 introduced differentiated administrative strike prices for Scottish and non-Scottish projects, only one Scottish project secured a contract. This outcome implies that, even if future rounds are dominated by Scottish projects, clearing strike prices are likely to be higher, increasing overall system costs.

In parallel, weaker AR7 outcomes for Scottish projects have already contributed to project cancellations and delays, such as Morgan and Mona, further increasing uncertainty within the offshore wind CfD market. Taken together, these factors suggest that delivering the Clean Power 2030 target may be more challenging than headline capacity requirements alone would indicate. Reform to transmission charging arrangements and broader measures need to be emplaced to improve investment certainty.

With the UK's lasting energy legacy and knowledge, the UK supply chain is an essential piece of the puzzle to deliver offshore wind projects, steer investment, and create additional economic opportunities for the country.

Within offshore wind projects, development expenditure (DEVEX) and operational expenditure (OPEX) activities highlight the strengths of the supply chain. High UK content within services, such as environmental and consenting (95%) and project management/owner engineering (75%), reflects the lasting legacy of the world-class North Sea supply chain. Similarly, operations & maintenance (O&M) (65%), inspection and maintenance (47%) and port and logistics (100%) all show high UK content.

Nevertheless, areas such as procurement and manufacturing lack in terms of the UK's supply chain contribution. Full turbine manufacturing remains a weakness for the UK supply chain, with components such as rotor-nacelle and tower manufacturing having 0% local content. Cables, substations and foundations similarly have low domestic supply presence. These components, however, are manufactured outside the UK due to other global suppliers dominating the market due to the UK's low heavy industrial resources. Addressing these challenges is the Offshore Wind Growth Partnership, an independent not-for-profit organisation established to provide private funding and targeted business support to UK-based companies.

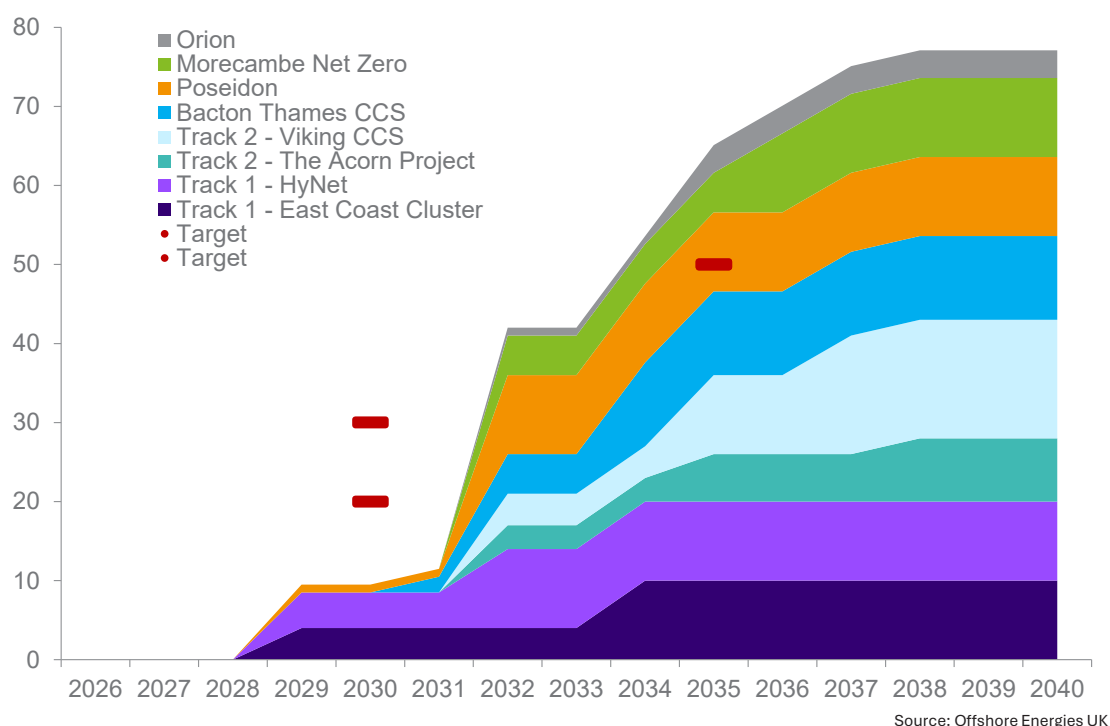
These UK-based supply chain companies are crucial in retaining and growing our domestic energy supply to unlock its potential to become a global leader in offshore wind and increase the country's energy security. Therefore, it is essential to ensure that these technologies and services have continued investment so they can scale in line with future demand.

Carbon Capture and Storage

The UKCS represents an enormous opportunity for carbon storage, with an estimated 78 billion tonnes of CO₂ storage capacity, making it the largest national capacity in Europe. The UK has the chance to be a global leader in CCS, with the capacity to support both national and international decarbonisation ambitions, as well as the technical capability, well-developed policy and regulatory regimes that can all be used globally. To realise this opportunity, it is crucial that the Track-1 clusters are delivered at pace and that the policy and regulatory environments continue to progress Track-2 clusters and projects outside of the current track process.

The Track projects are fundamental for the UK CCS sector; they have enabled the development of the initial policy and regulatory framework needed to build a new UK sector, including the business models needed to support emitters and, in turn, the T&S networks. These first projects benefit from a high locational density of emitters that supports the technical, operational and financial development of a transport (pipeline) and storage (offshore) networks. To build a robust UK CCS sector, both these foundational projects and those outside of the current track process projects need to be encouraged and nurtured. The UK CCS sector aims to become self-sustaining. Projects beyond the current track process are essential for this, as they provide opportunities to foster a competitive market, increase choices for emitters, and drive cost efficiencies across the industry. Additionally, it is anticipated that UK storage facilities will receive CO₂ from other regions, especially Europe, offering further revenue potential for UK businesses.

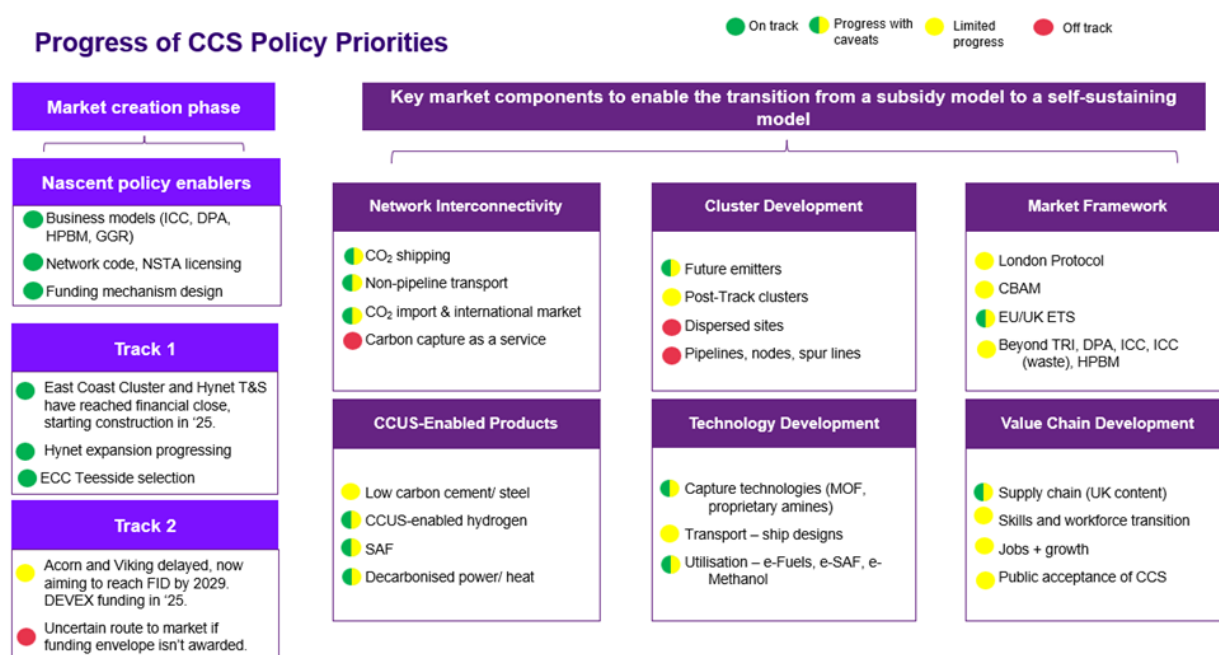
Figure 12: The pipeline of UK CCS projects has shifted out, as funding awards have delayed progress beyond Track-1.



Policy Evolution

CCS policy in the UK needs to evolve to support projects outside of the current track process to have a route to market. The UK CCS framework has been developed for track projects and, as such, it is not currently easy for a project outside of the current track process to become operational. Enabling these projects would unlock vast amounts of storage capacity, strengthening the UK's position as a global leader in the CCS sector.

Figure 13: Progress of CCS policy priorities.



Cross Border

Cross-border transport of CO₂ represents an opportunity for UK storage sites and companies. In order to access these volumes of CO₂, there needs to be an evolution of policies and regulations that commercially enable non-UK emitters to access stores. The UK and EU must align regulatory and legislative frameworks. Details of the requirements can be found in the report Carbon Capture & Storage in the UK: Accelerating towards the merchant model, which OEUK commissioned Arup to conduct.

Opportunity and Barriers

Research carried out by Rystad Energy, commissioned by OEUK, shows that about 80% of the supply chain needed for the UK CCS sector can be translated from the existing offshore energy supply chain. This capability is across the supply chain and could represent over £30 billion of spend over the next 15 years.

While the UK government has quietly abandoned the 20-30Mtpa of storage by 2030 target, the need for CO₂ storage will become increasingly important as 2050 approaches. Changes to the energy landscape will continue to contribute to the demand for CO₂ storage as well as regionally close, industrial Europe.

Hydrogen

The development of the UK's hydrogen sector continues to lag behind expectations, with structural barriers outweighing early ambition. High production costs, particularly for green hydrogen, remain a major obstacle. Hydrogen projects face challenging economics driven by expensive capital and operating costs, alongside emerging business models that are not yet fully supported by long-term funding mechanisms. These pressures mean that many UK projects struggle to reach financial investment decisions.

Demand is also significantly weaker than anticipated. Despite more than one hundred projects in development, there is still limited clarity about where large-scale, bankable demand will come from. Industrial users that could benefit from low-carbon hydrogen face their own cost constraints and uncertainties, which slow the pace at which commercial offtake agreements can be secured. Without robust, long-term demand signals, the market cannot scale at the rate required. A further constraint is the lack of dedicated transport and storage infrastructure. The UK will be unable to build a meaningful hydrogen economy without the ability to move hydrogen at scale or store it for long-duration flexibility. Significant pipeline repurposing and new transport and storage capacity will be needed, yet progress remains slow and fragmented, limiting investor confidence, ultimately preventing producers and offtakers from connecting efficiently.

Barriers, including high production costs, weak demand, and delayed transport and storage development, are now the central challenges facing the sector. Rather than a lack of ambition, it is the absence of these foundational market requirements that is holding the UK hydrogen economy back. To unlock investment and support the emerging project pipeline, OEUK calls for a more coherent and investible policy environment, including clear long-term funding mechanisms, realistic deployment targets, and early infrastructure planning aligned with industrial demand centres. Delays to the publication of the updated hydrogen strategy have exacerbated this uncertainty.

Without decisive policy action to address these structural issues, the UK risks falling behind international competitors and missing the opportunity to build a credible low-carbon hydrogen market capable of supporting industrial decarbonisation, energy flexibility, and future export potential.

UK Offshore Supply Chain: Health & Investment Signals

The UK offshore supply chain remains a foundational economic and operational asset, underpinning the delivery of oil and gas, offshore wind, carbon storage and emerging hydrogen projects. Rystad Energy analysis⁷ shows that around 50–80% of the investment required to deliver low-carbon offshore solutions can be met by capabilities that already exist within the UK's oil and gas supply chain - making retention of this industrial base a critical enabler of delivery. However, the current investment climate is placing sustained pressure on its capacity, confidence and competitiveness. Business sentiment across supply-chain companies has continued to decline over the past 12 months, shaped primarily by fiscal instability, regulatory uncertainty and persistently high input costs. These conditions materially affect the ability of companies to plan, invest and retain specialist capability.

⁷ <https://oeuk.org.uk/product/uk-og-supply-chain-opportunities-in-the-energy-transition/>

To realise the value of this wider pipeline, suppliers require visibility of timing, sequencing and commercial frameworks. Across the UK, rising costs and limited investment are driving more company mergers – this disrupts the usual flow of work and makes future contracts harder to predict.

Published analysis points to tightening capacity in parts of the offshore supply chain, including vessel availability and specialist capability (Rystad Energy; OEUK Supply Chain Report 2025). Longlead equipment availability, vessel demand, fabrication constraints and specialist labour shortages have the potential to create bottlenecks if activity rebounds more quickly than expected. OEUK member engagements highlight four consistent risks: flight of capability overseas, business failure, loss of skilled people, and capacity bottlenecks across critical services.

High financing costs and extended payment terms continue to erode margins, particularly for SMEs. In 2025, nine in ten supply-chain companies indicated they were looking overseas to grow their business due to domestic conditions⁸; 2026 sentiment suggests these pressures have either stagnated or worsened.

Commercial behaviours remain a critical determinant of supply-chain health. OEUK's Supply Chain Principles capture what good looks like and the bi-annual Working as One survey measure how well these are being followed. The 2024 survey has resulted in more companies than ever achieving gold awards however results continue to surface issues around tendering efficiency, risk allocation, and contract models.

Positive progress is being made through the development of OEUK Alliance Contracting guidelines and a suite of standard contracts for offshore wind.

Finally, visibility and clarity remain essential to anchoring the UK supply chain. Suppliers consistently cite the need for trusted, granular projections of demand across oil and gas, offshore wind, CCS and hydrogen to inform investment decisions - a gap OEUK continues to address through its risked energy project pipeline, annual Share Fair event, and Working as One insights.

In the current business environment, strengthening the UK's industrial competitiveness will require competitive energy costs, predictable policy frameworks, clear regulatory sequencing, and consistent commercial behaviours that support sustainable contracting models

⁸ <https://oeuk.org.uk/product/supply-chain-report-2025/>

SECTION 5:

ENERGY PRICES

The cost of energy impacts all aspects of the UK's economy, influencing everything from household bills and industrial competitiveness to the cost of goods and services. Wholesale energy prices form the foundation for the overall energy costs faced by consumers and businesses. Fluctuations in the wholesale market are, therefore, often quickly reflected in end-user pricing. Following a period of unprecedented volatility in the oil and gas markets after the invasion of Ukraine, energy prices have stabilised, slowly falling from their 2022 peak. This stabilisation has provided some relief to both industry and consumers.

However, the UK continues to have some of Europe's highest energy prices. The impact of which is being felt in energy-intensive sectors, including manufacturing, chemicals, steel and cement, and is impacting the competitiveness of the UK supply chain overall. Looking ahead, the UK must continue to prioritise domestic production of energy to promote energy security and resilience, while limiting its exposure to once again growing geopolitical tensions.

Brent Crude Prices

Over the past 12 months, the United States and OPEC+ have substantially increased crude oil outputs, expanding the global supply of oil by three million barrels per day (bpd)⁹ in 2025. This is in the face of mild demand growth of 0.8 million bpd. Continued oversupply is in part driven by Donald Trump's need to quell the growing cost of living in the United States caused by his protectionist approach to tariffs in early 2025.

The global oversupply of crude oil in 2025 has had profound effects on the price of Brent Crude. Last year, Brent Crude oil prices averaged \$69.13/bbl, \$10.39/bbl (-13%) lower than the 2024 average and almost half of 2022's real-terms average price, when windfall taxes were introduced. Since April 1st, 2025, the Brent Crude oil price 6-month rolling average has been at or below the Energy Security Investment Mechanism (ESIM) threshold, \$76.12/bbl. It is evident that global oil prices no longer constituted a windfall in 2025.

⁹ <https://www.iea.org/reports/oil-market-report-december-2025>

Events in recent weeks have brought this back into conversation, as the impact of the conflict in the Middle East has seen short-term rises in oil prices. Almost 20% of global oil supplies travel through the Strait of Hormuz and conflict has prevented the vast majority of ships from passing through. This has dramatically limited the supply of oil to the global market and it is putting short-term pressure on the price of crude. By mid-March, intraday prices had exceeded \$100/bbl for the first time since the peak of the energy crisis. The longevity of this price spike will be dependent on the length and severity of the conflict in the Middle East.

Figure 14: Brent Crude prices have consistently fallen over the past 12 months as global supply growth exceeded demand growth.

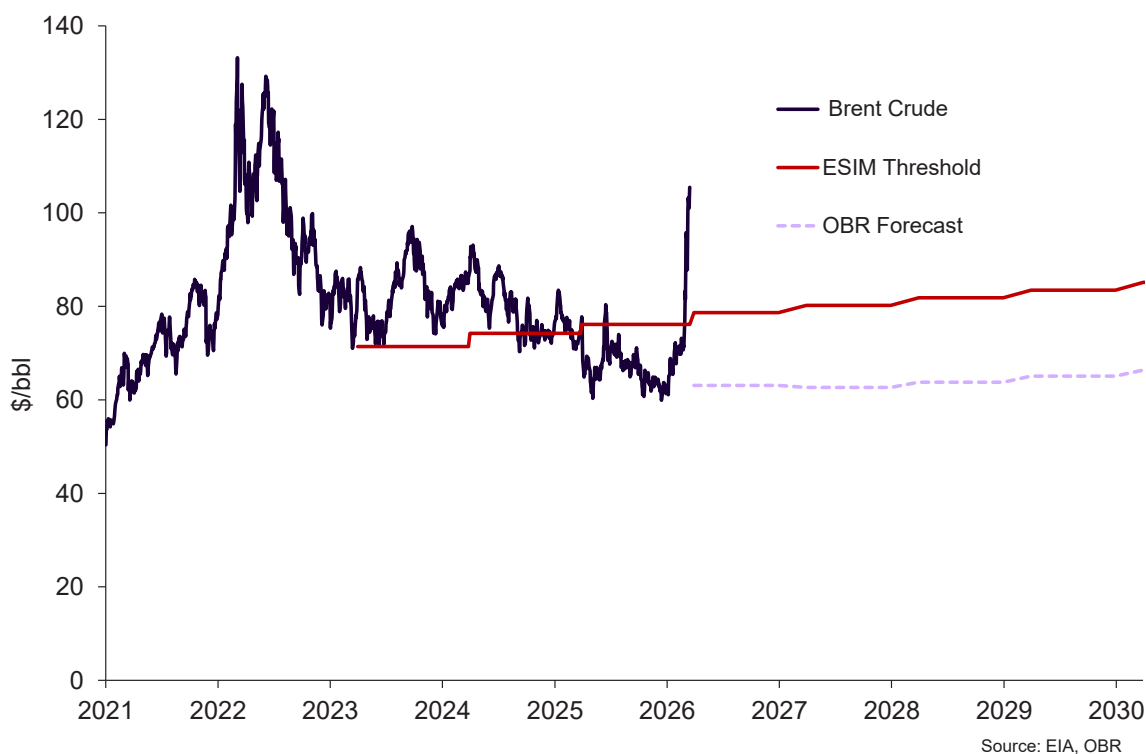
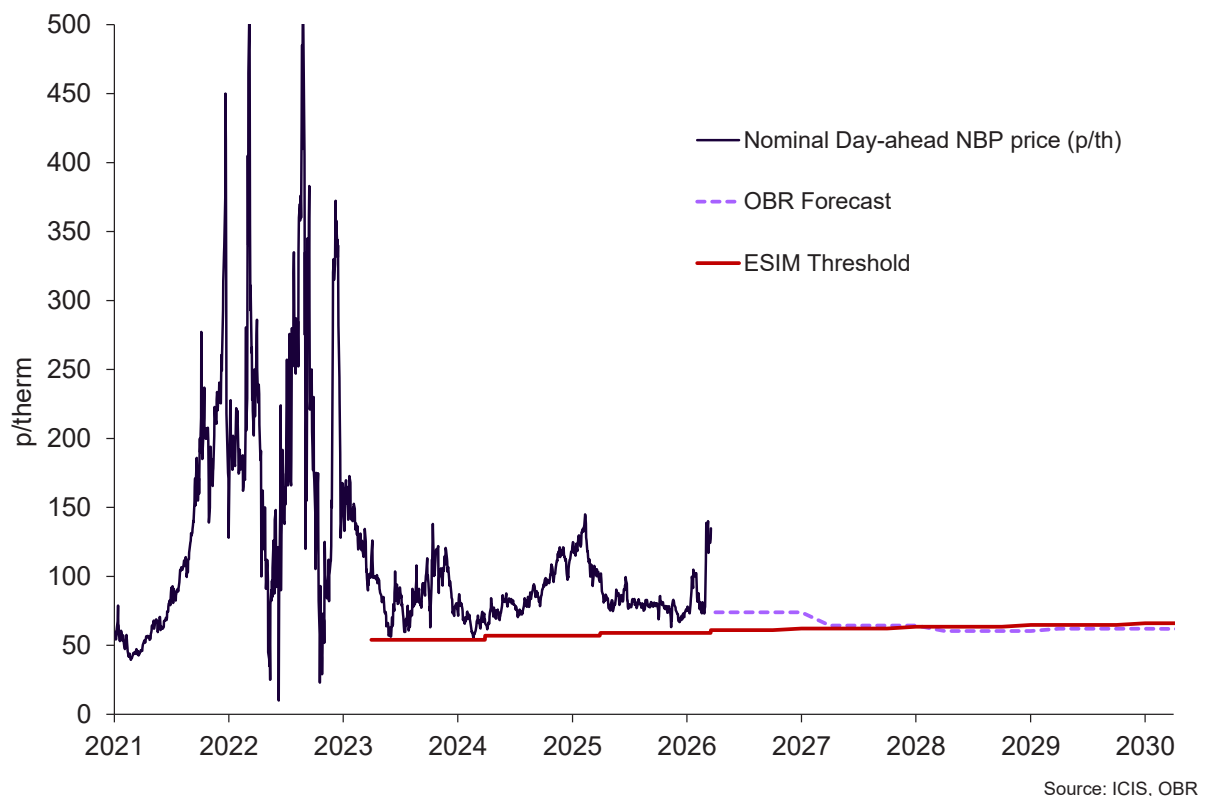


Figure 15: NBP day-ahead gas prices are at the lowest levels since the pandemic and are expected to fall as global LNG supply surplus expands.



NBP Gas Prices

The colder-than-average start to 2025 saw accelerated gas storage withdrawals, alongside unplanned outages at Teesside CATS, Norwegian gas processing plants and the Freeport LNG facility in Texas. The resulting impact was a 10% rise in the monthly average NBP gas price in January, to 123p/therm, almost twice the January average in 2024 – the highest sustained prices since the end of the energy crisis. Natural gas temporarily regained its position as the single largest supplier of electricity in the UK for the first four months of 2025, providing almost 40% of the UK's electricity needs in January.

Since April 2025, the day-ahead NBP gas price sat around 80p/therm, settling nerves on the impact of conflicts in the Middle East, which tempered a solitary spike in June. Bearish drivers, including high gas storage levels, a mild Autumn, and consistent flows of LNG imports, meant that gas prices continued to fall. November and December saw NBP day-ahead gas prices reach their lowest levels for 18 months and the lowest quarterly average prices since Quarter-2 2021, 75.15p/therm.

Despite the lowest gas prices since the pre-energy crisis, day-ahead NBP remains significantly above the current ESIM threshold price, 59p/therm. Bringing into question once again the definition of a windfall and the associated trigger prices.

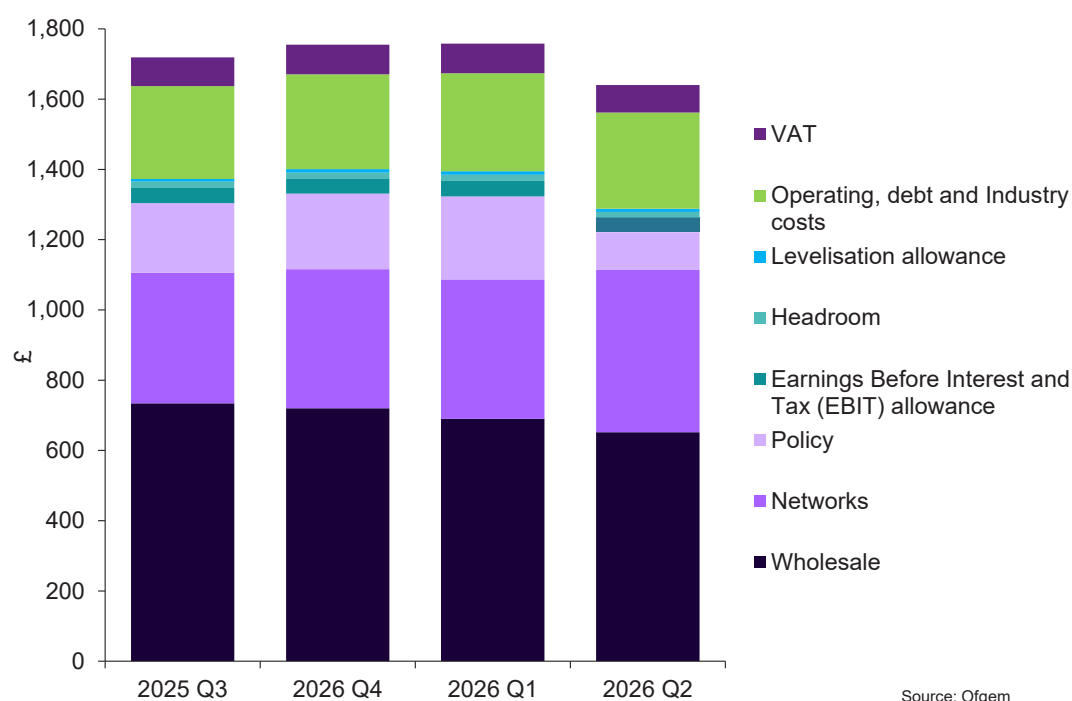
The IEA expects roughly 300bcm¹⁰ (5x UK demand) of new LNG export capacity to be added globally by 2030, supported by liquefaction capacity expansions in the United

¹⁰ <https://www.iea.org/reports/gas-2025>

States and Qatar, two of Europe's major LNG trading partners. In recent years, LNG has become the global price setter for the natural gas market. Any future glut of global LNG supply is likely to ease gas price volatility and bring down long-term gas prices.

While the growth in global LNG capacity should mitigate long-term price volatility, the conflict in the Middle East has prevented significant volumes of LNG from entering the global market. This loss of supply amid fears of a prolonged conflict in the region has meant that gas prices globally have surged. The UK alone has experienced the highest gas prices since the Russian invasion of Ukraine. As per the Brent Crude price, the long-term impact of this conflict is yet to be realised, should the war be prolonged, the impact on our domestic gas prices could be profound.

Figure 16: Wholesale energy prices are no longer the principal driver of energy price cap rises.



Energy Price Cap

With oil and gas prices falling, wholesale energy prices are no longer driving up the energy price cap, despite a rise in the overall price cap in the Q4 2025 and Q1 2026 dual energy bill price caps. The proportionate impact of wholesale energy prices has now returned to pre-pandemic levels, 39% of the total energy price cap. The principal price drivers are now network, policy and operating costs. Collectively, this triad has increased the dual bill energy price cap by £53 over the past 6 months. A trend that is to continue for at least the remainder of this decade, following the government's announced plans to expand the UK's aging electricity and gas transmission and distribution networks.

Post-2025 Budget

The 2025 Budget saw Labour attempt to counter rising network and policy costs by ending the Energy Company Obligation (ECO) and through the partial government funding of the domestic cost of the legacy Renewables Obligation (RO). Collectively, these two measures are estimated to save £154 per household, £88 through the RO, £59 through not renewing the ECO and £7 in VAT. This is on top of extending the £150 Warm Home Discount to a further 2.7 million, with up to 6 million households now receiving the discount.

The government decision to fund 75% of the RO through generation taxation will be in effect for the remainder of the spending review period, covering the financial years 2026/27, 2027/28 and 2028/29. The shift to generation taxation directly reduces the levies component of household electricity bills. Historically, the costs of the RO have been passed on directly through energy bills. The most recent unit rate in the energy price cap update was £33.06/MWh, 75% (£24.80/MWh) will now be removed from the bill. This commitment will see the government spending £6,875 million over the next three financial years:

2026/27 - £2,580 million

2027/28 - £2,100 million

2028/29 - £2,195 million

The ECO currently places an obligation on medium and large energy suppliers to improve the ability of low-income, fuel-poor and vulnerable households to heat their homes. This will be removed on the 31st March 2026. Reflecting on the latest price cap, this will reduce the unit cost of electricity and gas by £8.91/MWh and £3.15/MWh, respectively. Low-income households that benefited from the ECO scheme will instead be able to seek support from the Warm Homes Discount. This will receive an additional £1,500 million funding across the next three financial years. However, this represents a fall from the ECO's estimated annual expenditure of £1,700 million.

The combined impact of the removal of the RO and ECO will see households affected to varying degrees, with those more heavily reliant on electricity impacted most significantly - reflecting the government's ambition to incentivise the electrification of the UK's housing stock.

The RO funding change combined with not renewing the ECO is forecast to reduce CPI inflation by 0.2 percentage points in the financial year 2026/27.

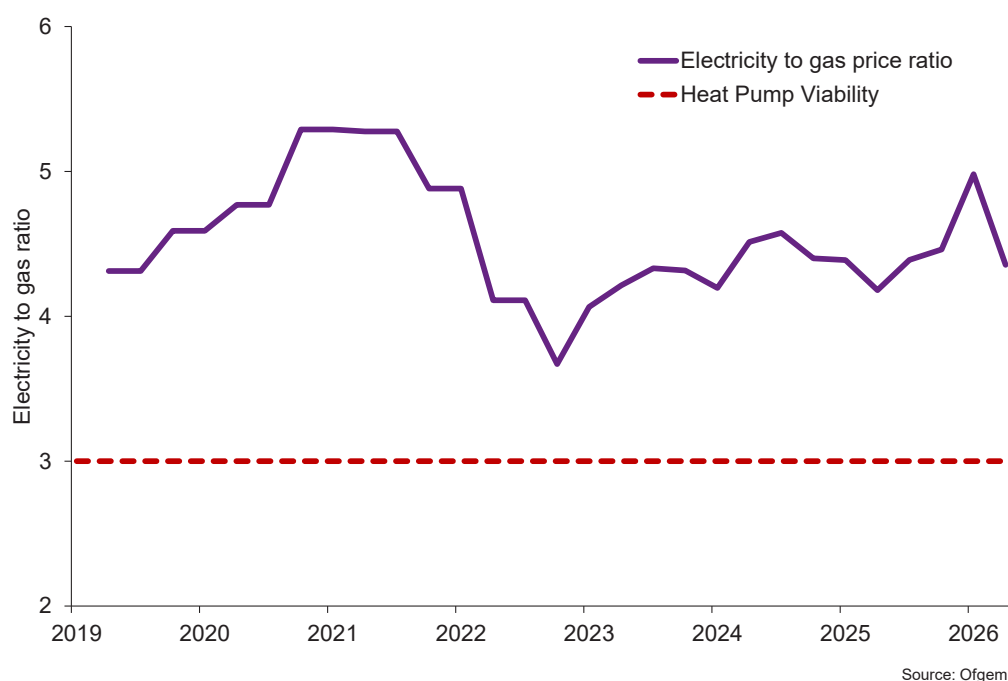
Table 2: Impact of Budget updates on UK households

Type of Household	Estimated Electricity and Gas usage per year	Cost saving from all changes £/year equivalent including VAT
Typical dual fuel household, 2–3-bedroom house, 2-3 people with typical price cap consumption levels	2.7 MWh electricity 11.5 MWh gas	£134
High demand rural household with poor energy efficiency	3 MWh electricity 30 MWh gas	£205
Gas-heated house with medical equipment and constant heating	4 MWh electricity 25 MWh gas	£224
Low demand flat or 1 bedroom house with 1-2 people	1.8 MWh electricity 7.5 MWh gas	£88
High-use electric storage heated household	12.5 MWh electricity No gas	£442

Electricity to Gas Ratio

The primary driver of consumer electrification is cost. At present, the cost of electricity relative to gas in consumer bills is 4.35, meaning that for every £1 spent on gas, £4.35 would need to be spent on the equivalent in electricity. It is estimated that for alternative household power sources such as heat pumps to become viable, the price ratio of electricity to gas needs to reach 3:1. With wholesale gas prices declining, the ratio of electricity to gas is growing. The announcement during the 2025 Budget to transfer 75% of the RO charges to general taxation has counteracted some of the impact of falling gas prices, but much is yet to be done to incentivise households to make the switch to heat pumps.

Figure 17: The electricity to gas price ratio is falling, but the difference still deters greater shifts to electrifying households.

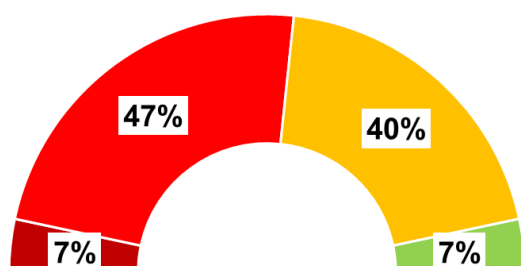


SECTION 6:

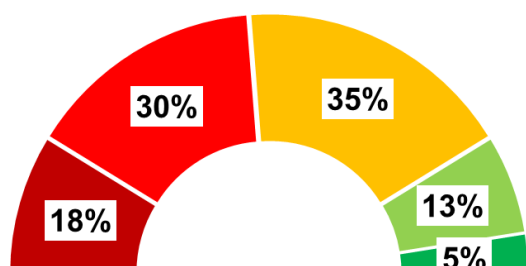
BUSINESS SENTIMENT SURVEY RESULTS

Figure 18: Business Sentiment for UK Operators and Supply Chain Continues to Worsen.

Oil & Gas operator Sentiment 2026 vs 2025



Supply Chain Sentiment 2026 vs 2025



- Significantly worse
- Somewhat worse
- No change
- Somewhat improved
- Significantly improved

Operators and Developers

Operator sentiment continues to reflect a challenging business environment, with the current fiscal and regulatory environment being key risks. When asked what the biggest barrier to improving business outcomes was, all respondents cited an adverse regulatory or fiscal environment. 69% of these respondents saw the current regulatory environment as being a risk to their organisation, with the other 31% stating that the fiscal climate was the biggest challenge to achieving an increase in business performance.

When questioned about the current regulatory environment, the vast majority of operators disagreed with the statement that the current regulatory environment is goal setting and enabling. The current regulatory environment is hindering the investability of the UKCS.

Supply Chain

In 2025, nine out of ten OEUK supply chain members believed that growing their business was only possible by finding new markets outside of the UK; this year, business sentiment has gotten worse, reinforcing concerns about the UK's attractiveness as an investible basin.

The decline in sentiment has been most pronounced among larger supply chain companies, those with more than 250 employees and annual turnover above £50 million. Within this group, 60% of respondents reported worsening business sentiment over the past year. These firms are typically more capital-intensive and exposed to the scale, timing and continuity of major projects, making them particularly sensitive to changes in investment conditions and policy.

When asked to identify the main barriers to investment in their UK operations, respondents consistently highlighted the current fiscal regime, alongside a lack of activity and limited project certainty. Companies operating in the manufacturing and EPCI phases of projects have been most affected. These segments face high upfront costs and rely on sustained volumes of work to maintain competitiveness. Disruption or slippage in project delivery therefore has a disproportionate impact on their commercial outlook.

By contrast, companies reporting the most positive outlook for 2026 are more frequently found within the operations and maintenance subsector. These businesses benefit from longer term, recurring activity linked to existing assets, providing insulation from short-term volatility in the project pipeline. This divergence highlights the extent to which future supply chain confidence tied to visibility of work and confidence in the long-term delivery of the UK's offshore energy project pipeline.



Working together, we are a driving force of the UK's energy security and net zero ambitions. Our innovative companies, people and communities add value to the UK economy.

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