

Energy UK Response to BEIS Consultation: CCUS: Market Engagement on Cluster Sequencing

15th March 2021

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies, right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

Response

Energy UK welcomes the opportunity to respond to the government consultation on cluster sequencing. We support the move from government to quickly build upon the Prime Minister's CCUS announcements in the Ten Point Plan¹, and propose a process to bring forward at least four clusters by 2030. The consultation document has been received positively by our members and the BEIS team should be commended on the progress over the last 12 months. On this occasion, we have decided to submit a high-level response outlining some key asks of the government in the design of the cluster sequencing process.

Maintain flexibility in the sequencing process to keep investment flowing

We see that CCUS cluster development will naturally sequence over the second half of the 2020s and is expected to occur broadly in line with the timings set out in the 10-point plan. We welcome the wording in the consultation that 'at least two clusters' will come forward in Track-1. This flexibility is key to facilitating the natural sequencing and maintaining confidence that developers can continue on existing development timelines without hiatus. We urge government to support further clusters to come forward if they are ready to do so, as early deployment is key to limiting cumulative GHG emissions as we transition towards Net Zero. An assessment of the progress of the different clusters will provide insights into the natural order of sequencing and this could underpin the design and timing of an official process.

We note that the concept of removing or substituting projects from the process may be challenging in reality. Cluster development has been underway for several years and the clusters have generally formed around an anchor project. The process as defined presents a possibility that anchor projects are not selected in Phase-1. The T&S system in a cluster is likely to have been developed based on this anchor project, and therefore, changing anchor projects could significantly affect end to end design, and lead to unnecessary delays and cost increases. We urge government to consider any implications for cross-chain risk, and how these will be mitigated. We view this as crucial given that cross-chain risk has been the key barrier to UK CCUS deployment in the past.

Energy UK believes that Cluster Leads should be compelled to include all eligible potential capture projects in the Cluster Plan rather than a minimum of two so that there is a level playing field for project

¹ BEIS – The Ten Point Plan for a Green Industrial Revolution. Access [here](#).

eligibility. It is important that the detail required in the Cluster Plan submission is not so burdensome as to restrict the number of projects that are included in the Cluster Plan. Requiring Cluster Leads to have an MOU with all cluster projects may be a barrier in this regard. Compelling Cluster Leads to include as many projects as possible in a Cluster Plan would have the added benefit of giving government the best understanding of the true performance of clusters against the selection criteria, will ensure T&S costs are properly understood at an early stage, and ensure clusters can be optimised for as many capture projects as possible, so as to ensure maximum competition for decarbonisation.

Maintain a level playing field

Energy UK is a technology neutral organisation and is keen to see that government follows a non-discriminatory approach when evaluating cluster plans and the capture plant allocation process later this year. Footnote 24 in the consultation document states that a Track-1, Phase-2 process will not be included for DACCs and BECCs, which implies that these technologies may be outside the scope of Track-1 evaluation.

We are concerned that this move would contradict the non-discriminatory principle and send a negative signal to developers, investors and cluster partners. We also recognise the vital role that negative emission technologies will play in meeting a net-zero emissions target, balancing remaining greenhouse gas emissions from 'hard to reduce' sectors. We therefore urge government to reconsider this approach and clarify Track-1 eligibility in future documentation published after the consultation. In doing so, BEIS would provide confidence to industry and investors and ensure the government has the full range of options to decarbonise each cluster at the lowest possible cost.

Provide line of sight beyond Track-1

We note that the cluster sequencing process should aim to provide a fair opportunity for all potential projects to be considered against value-for-money. We are particularly keen to see that the sequencing process does not result in any unintended consequences that may disincentivise projects from continuing to invest and develop towards Final Investment Decision (FID) if they are not selected for Track-1. We therefore encourage BEIS to set out a full process both for Track-1 and Track-2 as soon as practically possible to avoid any unintended impacts on investor and developer confidence, to prevent delays to FIDs and support the continued growth of clusters throughout the 2020s.

There is noticeable concern around this issue across industry. Focussing on Track-1 without providing further details on the approach, process or timing for Track-2 creates several significant challenges which could have a material impact on the success of any allocation processes after Track-1. The key risks identified include:

1. **Delays to FIDs** - By only providing details on the Track-1 process, and without setting out what the Track 2 process looks like, requires all clusters to compete for Track-1 such that securing a Track-1 place becomes a condition for progressing projects to FEED and securing investment. This approach risks undermining the development of projects that are not currently phased to be progressed 'by 2027' which could in turn inadvertently impede the development of a healthy pipeline of CCUS projects throughout the 2020s. By virtue of a cluster or capture project not being selected for Track-1, capture projects that would otherwise be able to take FID in line with Track-1 timings may be delayed if developers do not have visibility of a detailed process for Track-2.
2. **Stalled growth of Track-1 clusters** – It is not clear from the consultation document whether Track-2 will be designed to bring forwards additional clusters or to bring forwards additional capture projects in Track-1 clusters or both. At present this means that there is no defined process for capture projects that are unsuccessful in the Phase-2 allocation round for Track-1 to seek government funding. As outlined in point i., this could result in delays to projects taking FID until a clear process is defined or, at worst, projects may be cancelled. This may have the unintended consequence of limiting Track-1 clusters to the projects that are successful in the Phase-2 process meaning that cluster fail to reach their full deployment potential. To ensure projects continue to develop and can compete for funding in subsequent tracks, a full process for Track-1 and Track-2

which explains how new clusters, capture projects linked to existing clusters and capture projects linked to new clusters will be brought forwards.

- 3. Repeating failures of previous competitions** – The last CCS Commercialisation Competition run by the government was cancelled in late 2015 despite projects being on track for FID in early 2016. Many of the developers involved in the current Cluster Sequencing process will have experience of the prior competition and its cancellation at a late stage. In order to provide maximum confidence to industry that the cluster sequencing process will be fully developed so as to deliver on the commitments in the Ten Point Plan, BEIS should expedite the preparation of a full process for Track-1 and Track-2 and ensure that the allocation of clusters and projects to tracks is only done once a more holistic assessment of all clusters and all constituent projects is undertaken.

We encourage BEIS to set out a full process both for Track-1 and Track-2 as the best way of providing confidence to developers, and to assess each cluster and all eligible capture projects together so as to marry the projects which deliver the best outcomes for decarbonisation and meeting Net Zero Carbon targets with the most advanced T&S networks.

Alignment of relevant initiatives

There is a challenge in aligning the timelines of the many separate but dependent CCUS work streams currently underway. We note there should be minimal delay between Phase-1 cluster selection and Phase-2 initial project selection, which will require the CCUS business models and initial discussions with projects to have progressed significantly by the time negotiations begin from November.

In addition, it is not clear how the proposed sequencing fits with existing CCUS support processes. For example, most CCUS clusters were developed in response to the ISCF process, and therefore developers have already sought to align projects technically, commercially and to the ISCF timeline. The separation of cluster sequencing into Phase-1 and Phase-2 risks negating valuable work that has already been done to align development timelines. We would welcome clarification from government as to how the ISCF and cluster sequencing processes are intended to work together.

Handling of commercially sensitive information

In the suggested process for Phase-1, capture projects will likely be required to submit information to the Cluster Lead to form a Cluster Plan. In this phase, all parties in the Cluster Plan (capture projects, storage operator, transport operator) must work collaboratively to create a successful cluster bid. However, in Phase-2 the individual capture projects must submit their own application, putting them in direct competition with other capture projects within their cluster. Therefore, it is essential that in Phase-1, projects should not be required to submit commercially sensitive information as part of the Cluster Plan, which can then be used by competitors ahead of Phase-2. If commercially sensitive information is required in Phase-1, there should be a process to submit this directly to government rather than via the Cluster Lead.

Application guidance & open dialogue

Energy UK supports the ambition behind the indicative timeline in the context of the pressing need for decarbonisation. We do, however, note that the maintaining the timeline will be challenging. We have identified clarity of government guidance for the application process as a key enabler of delivery against the proposed timeline. We encourage government to work with industry to develop clear and explicit guidance on the type of information expected in cluster plans and project applications. We also note that the earlier this guidance is issued, the higher the probability for success against the indicative timeline. This guidance should be a top priority for government in the near term.



The voice of the energy industry

Should you have any questions regarding this consultation response then please do not hesitate to get in touch via the details below.

Philip McNally

Policy Manager, Power

Energy UK

020 7024 7633

philip.mcnally@energy-uk.org.uk