

Carbon Capture, Usage and Storage (CCUS): duties and functions of an economic regulator for CO₂ transport and storage.

24 September 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 almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses. The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

Executive Summary

Energy UK and our members thank BEIS for the opportunity to respond to this consultation and we can confirm that we are happy for our response to be published.

We welcome the fact that BEIS are consulting on the appointment of an economic regulator for CCUS transport and storage (T&S). Energy UK support the BEIS proposal for the implementation of Ofgem as the economic regulator for T&S networks. Energy UK would however welcome further clarity on how Ofgem will support the delivery of T&S networks in a timely manner given that Ofgem have very limited experience in managing offshore networks to date. We would also welcome more detail from BEIS on the proposed timeline for this legislation to come into force.

Consultation Questions

1. *Do you have views on our proposed approach to the duties and functions of the economic regulator for CO₂ transport and storage?*

We broadly support the proposed approach to the duties and functions of the economic regulator for CO₂ T&S. Energy UK also supports the appointment of Ofgem as the economic regulator.

However, as mentioned above, more detail is needed to set out exactly how Ofgem will carry out its duty as an economic regulator given its limited experience in offshore networks and how it will work with other integral bodies and key stakeholders.

We also welcome the principal and secondary objectives as set out in the consultation document and particularly welcome the rhetoric used around protecting the public and environment. Consideration should be given on how the regulator's duties can better reflect the inherent differences between CO₂ T&S networks – which are yet to be established – and more mature markets with a large number of suppliers, much larger number of customers (ranging from large industries to households) and more extensive infrastructure. Over time and as the market develops, these differences should diminish. The duties can also be more closely aligned with the government's objectives for the T&S Regulatory Investment model itself as stated in the consultation (attracting stable investment in the T&S network,

enabling low-cost decarbonisation in multiple sectors, providing sufficient flexibility for future market expansion).

Given the ambition set out in the PM's Ten Point Plan to deliver at least two CCUS clusters by mid-2020's and four by 2030 it is imperative the Ofgem is appointed to this role as soon as possible to ensure that the coordinated development of T&S networks can continue at pace.

Consideration should also be given to the interaction between this role and Ofgem's current role if existing gas pipelines were to be considered for re-purposing for CO₂ at some point in the future.

2. *Are there additional objectives and duties, to those considered here, to which the economic regulator should have regard in the exercise of its functions?*

Energy UK feels that the statutory duties of the regulator should clearly reflect the following:

- Climate targets – The regulator's statutory duties should recognise the critical role CCUS will play in meeting decarbonisation targets and should ensure that respective functions should ensure that the interests of existing and future users of the T&S network are met in accordance with government policy on decarbonisation.
- Maximising economic CO₂ storage (and the growth of networks).
- The need for network operators to be able to raise finance for their investments e.g. in expanding networks and storage, and deliver the agreed rates of return.
- Strategic direction, particularly ensuring CCUS is delivered to the level outlined in CCC reports including through collaboration between the T&S systems and how IPR will be managed.

3. *Do you have views on the proposed functions for the economic regulator, and how roles and responsibilities evolve over time as the network matures?*

We would request clarity from BEIS on allowable revenues in the first regulatory period as soon as possible, in order to give confidence to T&S companies and in turn CCUS projects. This regulatory period should be designed in such a way that allows for a seamless transition to the second regulatory period to ensure that investor confidence can be maintained from both a T&S and capture project perspective.

4. *Do you have views on stakeholders who the economic regulator should be statutorily required to consult with on changes to the Economic Regulatory Regime?*

Energy UK believes that Ofgem as the economic regulator should work closely with the Oil and Gas Authority (OGA) and the Offshore Petroleum Regulator for Environment and Decommissioning (OPRED). Energy UK would welcome further clarity from BEIS on how exactly Ofgem will interact with these other integral bodies.

The regulator should be statutorily required to consult on changes to the Economic Regulatory Regime with the T&SCos and users of the network, other relevant bodies (Crown Estate, Environment Agency / SEPA, Committee on Climate Change) and relevant trade associations (in the energy, transport and storage sectors) on changes to the Economic Regulatory Regime.

5. *Do you have any views on the approach to issuing economic licences, including on the principle of allowing exemptions from the requirement for CO₂ transport and storage operators to hold an economic licence, and the conditions under which this might be appropriate?*

It is difficult to comment on the allowance of exemptions in absence of any detail about what these exemptions may entail. As a general rule however we would encourage BEIS and the regulator to minimise these exemptions where possible to prevent the introduction of distortions to the market, or parallel systems which are not reflective of the regulators duties. Exemptions could also present a material risk to the reputation of the industry if some T&SCos are able to operate in an inefficient manner compared to regulated peers, or could increase the perception of a reduction in regulatory oversight.

6. *Do you have views on the approach to enforcement, including the appropriate penalties for breach of licence conditions or of other regulatory requirements?*

Energy UK believes that under the first regulatory period, penalties should be limited to reflect that the industry will still be in its infancy and this will increase risk on T&SCos. Furthermore, once we move into later periods this grace period should end.

7. *Do you have views on whether aspects of non-pipeline transportation should require an economic licence?*

No views.

8. *Are there matters on which you consider the economic regulator should be expressly required to consult other authorities or regulatory bodies?*

The regulator should consult with the OGA (and Crown Estate where applicable) on leases, site operation, CO₂ transport and injection and offshore risk/safety, the HSE on the introduction of standards or specifications, and the Environment Agency for monitoring, reporting and verification for storage and leakage monitoring.

9. *Are there any barriers to co-operation or information sharing between regulatory bodies which may require further consideration, in order to facilitate an effective economic regulatory regime for CO₂ transport and storage?*

No views.

Next Steps

We would like to thank you in advance for considering our response and look forward to hearing further clarification of the next steps in due course. If you have any questions regarding our response in the meantime, please do not hesitate to contact me on the details below.

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