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BEIS CONSULTATIONS – ECONOMIC REGULATOR FOR CO2 TRANSPORT AND STORAGE NETWORKS/OFFSHORE DECOMMISSIONING REGIME FOR CO2/DECARBONISATION READINESS

1 October 2021

Dear Minister Hands,

Accompanying this letter you will find annexes setting out the Scottish Government's responses to each of the above consultations.

The Scottish Government welcomes the opportunity to outline our views on each of these three consultations on areas which relate to wider carbon capture, utilisation, and storage (CCUS) and decarbonisation policies. As you will be aware, the Scottish Government supports the development of CCUS as a common whole-system decarbonisation infrastructure with the flexibility to adapt over time to play a central role across the decarbonisation strategies of key sectors such as heat, industry and power. It is clear that CCUS has a vital role to play in reaching net-zero emissions; therefore, we are pleased to note the progress that the UK Government is now making in this key policy area.

The recent Scottish cluster sequencing bid, which incorporates carbon capture projects based across the UK that will transport their emissions by shipping for storage, illustrates the important part Scotland can play in UK wide decarbonisation, which will help us all reach our world-leading net-zero targets. Scotland's vast potential for CO2 transportation and storage will play a key role in decarbonisation across the UK and beyond.

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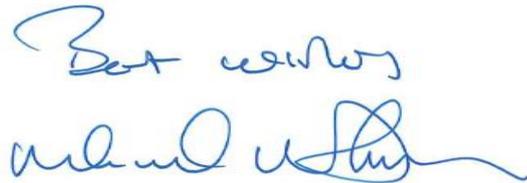
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We were pleased to note in the consultation on offshore decommissioning for CO2 your consideration of this issue in a timely manner, which will assist operators and investors in their future planning. We would advise that the UK Government continues to carefully consider liabilities and matters relating to insurance and that the approach taken in respect of these important matters is handled in a way which is compatible with, rather than restrictive of, industrial development.

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Following the analysis of the responses to this consultations, it is incumbent on the UK Government to continue to engage with key stakeholders, including current and potential operators, regulators, and the Scottish Government, to ensure that the outcomes of these consultations are in line with industrial and regulatory needs, whilst also being cognisant of the wider net-zero context.



MICHAEL MATHESON

Establishing the offshore decommissioning regime for CO2 transport and storage networks

Onshore and Offshore Decommissioning Liabilities

- We would agree that in principle it is sensible to split onshore and offshore decommissioning liabilities, and for the offshore component to be in scope of the funded regime. However, this does present a cross party risk that will need to be mitigated. We would wish to see proposals from BEIS on how this will be managed and whether BEIS would consider it necessary for a Government entity to have oversight of this.
- It is possible that the onshore component could be managed locally; however alignment and consistency between devolved regulatory bodies and local planning authorities will need consideration. The system should not consist of overlap of jurisdiction, and a common process in local approach must be encouraged with clear guidance.

Responsibility for Decommissioning Liabilities and Funds

- What is clear is that each of the proposed UK T&S solutions has individual infrastructure needs in support of differing storage sites, and hence have inherently differing risk profiles and potential liabilities. So in this regard, at least initially, differing funds could make sense. However, further thought should be given as to whether the T&S Co is the correct body to manage a fund. Furthermore, there is potential complexity if there are multiple funds for a number of storage sites or in the situation where multiple storage sites are serviced by a shared trunk pipeline. Particular complexity may arise when assigning decommissioning liabilities, especially where different parties are involved.
- We would concur that a regular funding mechanism would appear to be the simplest option, so avoiding upfront costs, and that it can accrue through investment. However, careful fund management is essential to avoid underperformance, and to ensure that cost and risk are not passed onto the emitter. For the integrity of the proposed process, the UK Government should ensure that any investments made are socially responsible and are aligned to net zero targets rather than solely focused on rate of return. This is essential when considering wider potential stakeholder views and galvanising support for CCS as a whole. Finally, fund managers, T&S Co or other, should carry both the windfall and shortfall risk.

Fund Management

- Careful consideration should be given to the right entity to manage the funds and we would strongly urge the UK Government to consider a full range of options. Fund management should not distract operators from their remit to

transport and store CO₂. Other models including an qualified entity with oversight of all T&SCo liabilities and investments could be a consideration.

- It will be extremely important for projects that the initial estimate of decommissioning liability is robust and appropriate for the scheme. With their experience of the offshore environment, OPRED would appear to be in a good position to calculate this initial estimate to pass to the economic regulator, who is likely to have less offshore experience.

Guidance on Roles and Responsibilities

- Whichever route the UK Government follows, it will be important that guidance documentation clearly defines roles and responsibilities, and that this should be developed in consultation with industry.