

North Sea Transition Forum

30th November 2022

Welcome and Opening Remarks

- Andy Samuel opened the meeting and thanked everyone for attending.
- This is a tripartite forum which has worked well, appreciate there are concerns regarding investment and the Energy Profits Levy 2.

Ashley Ibbett

- Andy Samuel was thanked for his leadership of the NSTA and successfully steering the industry through two downturns, a pandemic, and the start of the energy transition.
- Deirdre Michie was also thanked for her leadership of OEUK and robust advice she had provided to ministers and officials.
- The government recognises the value that the oil and gas industry brings in the form of jobs, security of supply and supporting the energy transition.
- The government also recognises that a reduction of our domestic supply would mean importing more oil and gas at greater expense and increased emissions.
- The climate compatibility checkpoint has been put in place to ensure new licenses are compatible with our climate commitments.
- Given these unprecedented times it was necessary to introduce the Energy Profits Levy.
- The government wants to see the oil and gas sector reinvest its profits to support the UK's energy security. The investment allowance remains and includes a new allowance for decarbonisation projects.
- Government will engage with the sector to discuss the future of the fiscal regime.
- The North Sea Transition Deal set ambitious decarbonisation targets to meet net zero basin by 2050.

Richard Lochhead

- A lot has happened since the last meeting; we are now in the midst of an energy and cost of living crises.
- This is a time where we must accelerate the transition, barriers must be removed as quickly as possible.
- We can't afford to lose people, investment, or the opportunity to be a first mover. We need an emergency mindset to move forward quickly.
- The Scottish Government supports the Energy Profits Levy, but it shouldn't just be one sector that is paying it should be anyone who has excess profits.
- Our position around oil and gas licensing is that the Climate Compatibility test should have been stronger, we need to show that we are taking a responsible approach.
- The Scottish Government intends to do everything it can to accelerate the transition and wants to see innovation in green energies.
- Oil and gas will continue to play a crucial role in meeting our energy needs.
- The first round of awards of £50m from the Just Transition Fund will be awarded shortly.
- The Scottish Government is also refreshing its Energy Strategy, which will include the first Just Transition Plan. This will go out for consultation; everyone was asked to contribute to this.

Lord Offord

- The oil and gas industry is critical to the UK economy, it is vital for our energy security.
- Gas produced in the UK has lower emissions than LNG shipped from other regions. We need a domestic oil and gas industry while we transition to clean energies.
- This forum has oversight of the North Sea Transition Deal, this shows what can be accomplished when government, regulators, and industry work together to achieve a managed transition.
- The oil and gas industry is a focus area for the Scotland Office, a managed transition will not be possible without the skills, infrastructure and investment of the oil and gas sector.
- Scotland has a huge potential to develop hydrogen, carbon capture and storage and offshore wind.
- John Lamont MP, Parliamentary Under Secretary of State, will be joining the NST Forum going forward.
- The supply chain should be on the agenda, a just transition must include jobs and opportunities for Scotland and the UK.

Setting the Scene - NSTA

- Potentially have a huge opportunity in the North Sea including:
 - £220bn investment
 - Over 200,000 offshore energy jobs
 - 6bn barrels of oil
 - 50GW fixed and floating offshore wind
 - 78gt CO2 storage
 - New Hydrogen economy
- This will add up to 60% abatement for the UK.
- However, this is under threat, if investment is diverted overseas this will impact on security of supply, bring decommissioning forward increase costs, reduce skills, diminish the supply chain and slow down the energy transition.
- A consultation on the Fiscal regime would be welcome as would a new Driving Investment Plan. Need predictability to encourage investment.
- Need to deliver on the North Sea Transition Deal, license to operate remains an issue, must speed up the energy transition and provide security of supply.
- Recognise that the regulatory landscape is overly complicated for future energy integration opportunities, work is underway on this.

Key Focus Areas for 2023 - Industry

- Industry would welcome a meeting with Minister Stuart as soon as possible.
- Andy Samuel was thanked on behalf of Industry for his achievements over the last 8 years, he is leaving behind a positive legacy.
- The EPL is troubling for the sector. To continue to provide energy security and contribute to the transition, the sector needs stability.
- The sector is still trying to recover from Covid, drilling activity has not returned to pre Covid levels, this will make contributing to security of supply and the energy transition difficult.
- We need a managed decline of the basin to ensure reduced emissions, sustain jobs, aid the energy transition and support the companies that are driving the energy transition forward.
- The increase of the EPL has had significant impact on investor confidence, already seeing evidence of projects being at risk. Investment across all energies is threatened if fiscal instability continues.

- Government support is needed to build back investor and industry confidence.
- Need to reinforce the connection with Treasury and would like to have a Fiscal Forum in the very near future.
- Would like a sunset clause in the EPL which recognises the cyclical nature of this industry. This would go a long way to reinforce investor confidence.
- The decarbonisation investment allowance is very welcomed.
- Would like to work together to deliver a 'Driving Investment Plan 2'.
- Industry is still committed to delivering the NSTD, however this was signed on the basis that the fiscal regime would be conducive to delivery.

Discussion

- Fiscal stability helps energy security, affordability and sustainability.
- Demand decline will not be fast enough to mean that indigenous oil and gas isn't wise.
- Most of the gas is now produced by independent companies which are mostly domestic companies. The EPL has a greater impact on smaller companies compared to super majors. The EPL has impacted on investment.
 - EPL2 has removed the trust industry had in government, other regions are now more investable.
 - The EPL2 is not perceived by industry to be fair and has a lot of unintended consequences such as on Reserves Based Lending capacity.
 - It was agreed that a 'floor price' is the big ask from industry, this would go some way in restoring investor confidence and help to stabilise the basin.
- Companies are investing in the energy transition however the availability of cash has now been greatly diminished.
- Need to avoid bringing decommissioning forward as this will push costs up.
- The industry wants to be constructive and recognise that taxes need to be paid, but there must be a balance.
- The question was asked what investment was at risk? The investment is in oil and gas and green energies.
- Pleased the Treasury will consult with industry on a more sustainable tax system. It is important that this is done quickly.
- Technology will be critical to the energy transition. NZTC have identified a package of technologies to help decarbonise not only the oil and gas industries but also other industries.
- Looking at opportunities for these technologies to be manufactured in the UK.
- A technology report has been published; this identifies the areas that should be worked on. We need test and demonstrate centres.
- Mistakes were made when setting up the offshore wind industry especially with the supply chain. From a CCS perspective the same mistakes are being made now. Other countries are overtaking us, we need more urgency.
- Helpful for HMT to hear the views from industry, aware that it is challenging, committed to security of supply and encouraging investment. A separate meeting will be set up with the Treasury.

North Sea Transition Deal

- The NSTD was ground-breaking and exemplar deal with industry and government working together.
- Industry is on track to meet the commitments made on reducing emissions, will need electrification to continue.

- BEIS is focused on the need to deliver electrification and aware of the need to deliver at pace. Barriers have been identified and these are being worked on.
- It is recognised that the work being done with the supply chain went well but there are still concerns.
- A supply chain roadmap is being developed which will provide a framework for the transformation of the supply chain over the next decade. This will provide clarity for the supply chain.
- One area being worked on is the visibility of opportunities in other energies to enable the supply chain to adapt. Opportunities are being mapped to identify where focus and investment is needed.
- If supply chain opportunities are not realised it risks:
 - Jobs
 - Spend and tax contributions
 - Energy Security
 - Energy transition and net zero
- Currently there is more work coming than there is capacity in the UK to execute it. Building the capacity will take time and money. Key is how to stimulate investment ahead of the need.
- Ask from the group is access to funds and a market mechanism/product to share risk ahead of the need. Ideas would be welcome for this.
- The supply chain is in survival mood, it needs a medium-term view and confidence in investment and stimulation.

Closing remarks

- OEUK to continue to collate evidence on what is happening with investment.
- The offer from the Treasury to have a fiscal forum (in Aberdeen) is extremely welcome.
- Consultation on the fiscal regime and a Driving Investment Plan would be welcomed.
- Plan for a NST Forum meeting (in Aberdeen) early in 2023 with one of the focus areas being the supply chain.
- There have been some powerful messages heard today, the message about not falling behind and grasping the huge opportunities have been heard.
- We all want a very successful energy sector for consumers, employees, investors etc. Need more consultations and collaboration.