North Sea Transition Authority

Response to the call for evidence on potential introduction of a carbon storage levy

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Contents

This response can be found on the NSTA's website.

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General information

Purpose of this consultation

This document sets out the NSTA's response to the call for evidence to seek initial information and views regarding the potential principles, design and timing of a possible future levy on UK carbon storage licences. The call for evidence opened on 4 December 2023 and closed on 26 January 2024.

This response issued: 23 May 2024

Territorial extent: United Kingdom and United Kingdom Continental Shelf ('**UKCS**')

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Quality assurance

This consultation has been carried out in line with the government's consultation principles.

If you have any complaints about the process (as opposed to comments about the issues which are the subject of the call for evidence) please address them to:

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1. Introduction

1.1 This document summarises responses received and sets out the North Sea Transition Authority's (**NSTA**[1]) response to its call for evidence regarding the potential principles, design and timing of a possible future levy on UK carbon storage licences. The call for evidence was to help inform thinking around how the industry could, in the long term, move towards a 'user pays' model for the services provided by the NSTA, once the UK Carbon Capture and Storage (CCS) industry is on a more established and self-sustaining footing.

1.2 The call for evidence was open between 4 December 2023 and 26 January 2024, and sought views and feedback in relation to the:

- general concept of a carbon storage levy;
- principles informing a potential carbon storage levy;
- potential carbon storage levy design approaches; and
- timing of potential levy implementation.

1.3 The NSTA received nine responses to the call for evidence, from four industry associations, three carbon storage licensees, one oil and gas licensee, and the Scottish Government. The list of respondents can be found at Annex 1. The responses and the NSTA's response to them are set out below.

1.4 The vast majority of respondents supported the concept of a carbon storage levy, in line with the 'user pays' principle. There was also broad agreement that the timing of any potential levy introduction would need to align with timelines for the UK CCS industry operating on a more self-sustaining basis.

1.5 Following consideration of the responses, the NSTA has decided, unless there are major external developments, to introduce a carbon storage levy in the future, once the CCS industry reaches a more self-sustaining footing.

1.6 This document sets out in the responses received to individual questions in the call for evidence and the NSTA's response.

[1] The North Sea Transition Authority is the business name of the Oil and Gas Authority (OGA). The OGA remains the legal name of the company. NSTA and OGA are used interchangeably in this document.

2. Principles informing a potential carbon levy

Introduction and background

2.1 The call for evidence sought initial information and views regarding the potential principles, design and timing of a possible future levy on UK carbon storage licences.

Summary of responses received

2.2 The following questions were asked:

Q1. Do you agree with the general concept of a carbon storage levy in the longer term, in line with the 'user pays' principle?

2.3 The vast majority of responses supported the concept of a carbon storage levy, in line with the 'user pays' principle. However, most respondents said that the introduction of any carbon storage levy should be when the CCS industry was operating on a more self-sustaining basis, rather than immediately.

2.4 In particular, it was noted that the UK CCS industry is less developed than the UK petroleum industry, which is currently subject to a levy.

Q2. Do you have any views on the potential principles that could inform a carbon storage levy?

2.5 Respondents were supportive of any levy being informed by clear principles and generally agreed that the broad principles for the NSTA's existing petroleum levy – 'user pays', reflecting actual costs and providing funding certainty – should also be used to inform a potential carbon storage levy. However, it was also recognised that the UK's nascent CCS industry has a different business model from the petroleum industry and the government's wider policy framework for CCS is still evolving.

NSTA response

2.6 The NSTA notes the responses and, unless there are significant external changes, intends to introduce a levy for carbon storage, once the industry is on a more self-sustaining basis. It is intended that any levy would follow the principles outlined in the call for evidence, though the design and timing of introduction requires further consideration. Any future levy would be preceded by formal consultation.

3. Potential carbon storage levy design approaches

Introduction and background

3.1 The NSTA identified and sought views on a number of broad carbon storage levy design options:

- Single levy rate for all carbon storage licences
- Differing levy rates for different categories of licence holder
- Combined single levy for petroleum licences and carbon storage licences
- Potential carbon storage levy based on acreage or amount of carbon dioxide stored

Summary of responses received

3.2 The following questions were asked:

Q3. Do you have any views or evidence supporting or discounting any particular potential levy design approach?

3.3 Respondents generally supported different levy rates for different project phases, recognising in particular the differences in cost and income between a project before and during carbon injection. There was little support for a single levy rate for all users, recognising the likely disadvantage to licence holders at an early stage of project development.

3.4 Some respondents expressed a preference for a combined carbon storage and petroleum levy, to support certainty of funding. Others considered such a combined levy could be perceived as one sector subsidising the other. There was some support for a levy rate based on injection rates, though no specific suggestions as to how a rate designed in this way could be linked to the actual work undertaken by the NSTA. There was no support for potentially using acreage for determining levy rates.

Q4. What categories of carbon storage licence holder could there be for possible inclusion or exclusion from the scope of any potential future carbon storage levy?

3.5 Respondents made several suggestions on possible categories of eligible licensee, including in particular, as noted above, different rates based on whether or not carbon dioxide injection is occurring. Four respondents also suggested that lower or no levy rates may be considered for carbon storage licences in the post-injection and decommissioning phases, as the licensees would not be generating income at that stage.

Q5. What could be an appropriate basis or trigger points for differentiating between different levy rates in potential designs where there are different levy rates?

3.6 Eight responses were received. All who responded suggested the trigger point for any differential levy rate should be carbon dioxide injection. Three respondents also suggested a lower levy rate for micro-enterprises.

Q6. Do you have any other suggested design approaches or options?

3.7 Individual respondents made additional suggestions, including basing the levy rate on carbon dioxide injection rate. No evidence or analysis was offered in support of any individual design options.

NSTA response

3.8 The NSTA notes the responses on potential levy design approaches.

4. Timing of potential levy implementation

Introduction and background

4.1 The NSTA recognises that the UK CCS industry is currently in its infancy, and determining when the industry might be sufficiently mature or established for a potential levy requires careful consideration. Determining the best time for a potential future levy implementation depends on a range of factors, including the overall policy and regulatory framework for CCS in the UK, and how well established the UK CCS industry can be considered.

Summary of responses received

4.2 The following question was asked:

Q7. Do you have any views or evidence on the best timing for implementing a carbon storage levy?

4.3 There was broad agreement that the timing of any levy introduction would need to align with the market-based transition of the CCS industry. In terms of determining when this could be, there were suggestions around linking it to the injection rate or to developments in the UK Emissions Trading Scheme (ETS) price. Several respondents suggested the introduction of any future carbon storage levy should align with the timeframes for market transition set out in the government's CCUS Vision, published December 2023, to establish a competitive market for CCUS. The Vision makes it clear that government expects to create a CCS market this decade.

4.4 Several respondents considered the emergence of a full market in 2030 as a helpful point for introduction of a full levy, with others suggesting a phased introduction of a partial levy could be considered.

NSTA response

4.5 As noted above, the NSTA intends to introduce a carbon storage levy in the future once the CCS industry is closer to operating on a self-sustaining basis.

4.6 The NSTA will continue to monitor the commercial and regulatory developments in the CCS industry and will ensure that industry is given sufficient notice before introducing a future levy. The NSTA will also consult further on the detail of any levy.

5. Conclusion and next steps

5.1 As noted above, the NSTA intends, unless there are major external developments, to introduce a carbon storage levy, once the CCS industry is on a more self-sustaining footing.

5.2 The introduction of any carbon storage levy would be preceded by more detailed consultation on its design.

Regulatory Impact Assessment

In the absence of a carbon storage levy, the NSTA's work on carbon storage will remain funded through existing fees and a government grant. Therefore, there are no new impacts at this time.

Future consultation on the design of a carbon storage levy would be accompanied by an Impact Assessment.

Annex 1: list of organisations responding to the call for evidence

Athena Exploration

bp

Carbon Capture and Storage Association (CCSA)

Mineral Products Association (MPA)

OEUK

Scottish Government

Spirit Energy Limited

Subsurface Taskforce

Summit Energy Evolution Ltd (SEEL)

North Sea Transition Authority

The North Sea Transition Authority is the business name for the Oil & Gas Authority, a limited company registered in England and Wales with registered number 09666504 and VAT registered number 249433979.
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