



Carbon Capture &
Storage Association

APPG CCS Meeting 19th January 2016

CCSA briefing on Government decision to withdraw the £1 billion for CCS

Background

On the 25th November, the Chancellor announced the Autumn Statement and the Spending Review 2015. Shortly after his speech had finished, the Government issued a statement to the London Stock Exchange that *"the £1 billion ring-fenced capital budget for the Carbon Capture and Storage (CCS) Competition is no longer available. This decision means that the CCS Competition cannot proceed on its current basis."*

This decision came at a time when the Government's CCS competition (launched in 2012) was only a few weeks from its conclusion – the two preferred bidders (White Rose and Peterhead) were due to submit their final bids by the end of 2015 and the Government had stated its intention to make a final decision on whether to proceed with these projects in the first quarter of 2016.

Impact of the decision

The announcement on the 25th November came as a complete shock to the CCS industry, particularly considering the statement in the Conservative manifesto highlighting the commitment of £1 billion for CCS.

This decision effectively represents the end of the Competition process and there appears to be no way forward for the White Rose and Peterhead projects, which were due to be the first operating CCS projects in the EU.

More widely, the decision has had a negative impact on investor confidence. This is already being felt across the industry in terms of job losses, companies moving away from CCS and from the UK.

Consequences

There is a serious danger that this decision could cause a very significant delay, perhaps of a decade or more, to the development of the first operational CCS project in the UK. This could have a number of wider consequences for the UK:

- Delays to the development of CCS risks adding significant additional costs to the UK economy, due to the increased costs of meeting climate change targets without CCS (the Committee on Climate Change has concluded that CCS has the potential to halve the cost of meeting the UK's 2050 target).
- This creates challenges for the long-term future of energy intensive industries in the UK. The Government's 2050 Industrial Roadmaps show CCS to make the largest contribution to CO₂ emission reductions in the transition to a low-carbon economy.
- CCS offers the opportunity to reuse oil and gas infrastructure for CO₂ transportation and storage, and maintain and create jobs in the North Sea supply chain. However, with little

clarity on the future of CCS in the UK, it is likely that oil and gas companies will press ahead with decommissioning – thereby closing off opportunities for reuse.

- CCS is not a technology can simply be bought in from other countries at a later date. Whilst this may be true of the capture part of the CCS chain, it is not possible to buy in storage capacity (i.e. the geological sites in which CO₂ is stored). This has to be developed locally.
- The UK has a unique opportunity to become a European hub for CO₂ storage, as one third of Europe's storage capacity is located under the UK section of the North and East Irish Seas. In addition, the UK is home to a world-class oil and gas industry – with the perfect skills and expertise for CO₂ storage. Failure to develop CCS in the UK now would represent a significant missed opportunity for the UK economy.

Next steps & moving forward

If the Government wishes to develop an industrial-scale CCS industry in the UK, then a number of actions must be taken to urgently maintain momentum:

1. Rebuilding confidence

- It is important to engage with the White Rose and Peterhead Competition projects and carry out a robust and transparent “lessons learnt” process. This process should be launched urgently to ensure retention of the key lessons from the Competition and for these to be integrated into the development of any future CCS projects in the UK.
- The Government should commit to developing a new CCS Strategy by September 2016. The Strategy should focus on how to secure investment in CO₂ pipelines and offshore storage sites and be developed in close collaboration with industry and other bodies such as the National Infrastructure Commission and the Oil and Gas Authority. The Energy Bill offers a timely opportunity for Government to make this commitment.

2. Support remaining UK CCS projects

- There are still a number of CCS projects that are at an early stage of development. These expected to build off the infrastructure that was developed by the Competition projects and could form the basis of a UK CCS industry.
- It is vital that the Contract for Difference (CfD) mechanism under the Electricity Market Reform (EMR) framework is available to develop CCS projects in the power sector. It is also vitally important to develop policies to support deployment of CCS within energy intensive industries.
- The Government must engage in a dialogue with the remaining projects to clearly articulate the outcomes it's looking to achieve and identify a route to market.

3. Developing transport & storage infrastructure

- A key challenge to the development of CCS in the UK is the provision of transport and storage infrastructure that can support multiple power and industrial emitters.
- The Competition has highlighted that the business model for transport and storage infrastructure needs to be revisited and that consideration given to financing options aside from the CfD mechanism.
- It is important to ensure that existing assets aren't lost whilst this new approach to infrastructure is considered. Millions of pounds have been invested in developing the Goldeneye and Endurance storage sites and conducting engineering studies on existing infrastructure such as the Feeder 10 pipeline from Grangemouth to St. Fergus. Options should be developed to keep these assets on the table whilst a future strategy is developed.