North Sea Transition Authority

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Dear Licensees,

The NSTA's Strategy obliges licensees to assist the UK government in reaching its 2050 net zero target. One important way that this obligation can be met is by investing in low carbon power projects for existing upstream oil and gas facilities and the NSTA welcomes the lengths that some licensees are already going to, to meet this obligation. However, successful and timely delivery of these projects, needed to maximise their impact and value, requires that licensees urgently commit to substantial investments. To help licensees make those commitments, this letter sets out how the NSTA expects to steward the adoption of low carbon power solutions for existing upstream oil and gas installations.

Over a longer timeframe the NSTA is also considering other ways that the upstream oil and gas industry can assist the UK government to meet its ambitious emissions reductions pathways and expects to set out a plan to deliver this, later this year.

In this regard, I welcome the industry's public commitments to rapid and sustained progress on emissions reduction, set out in the bi-lateral North Sea Transition Deal (the '**Deal**'). The Deal includes a 50% reduction in upstream emissions by 2030 and the deployment of new technologies, including platform electrification, which will enable a step-change reduction in emissions. However, the Climate Change Committee,[1] the Environmental Audit Committee,[2] and the Skidmore review[3] have each separately questioned whether these commitments go far enough and have instead proposed a target of a 68% reduction.

As such, and as set out in our 2022 Emissions Monitoring Report,[4] the Deal commitments are the minimum that the NSTA expects from industry. The NSTA has serious concerns about the impact on the industry's social licence to operate of any failure to deliver on those commitments. Furthermore, this requirement for rapid and sustained reductions in upstream emissions will not stop in 2030. Licensees are taking decisions this year that will have a bearing on their ability to meet the Deal commitments beyond 2030 and help keep the UK on track to meet the UK government's net zero commitment by 2050. To be assured that the current downward trajectory of emissions continues at the pace needed to sustain the industry's compliance with the Strategy, and its social licence to operate, licensees must make decisive investments *now and in the near future*.[5]

This urgency is particularly acute for brownfield low carbon power projects. The NSTA welcomes the efforts made by those already progressing these projects and now entering key decision points and recognises the uncertainty around material inputs to these decisions (e.g., commercial, procurement and regulatory). So, to support licensees in making the investments needed I have set out in Annex A principles that the NSTA will apply

[1] Climate Change Committee Sixth Carbon Budget
[2] Environmental Audit Committee – Accelerating the transition from fossil fuels and securing energy supplies
[3] Mission Zero – Independent Review of Net Zero
[4] https://www.nstauthority.co.uk/media/8439/emr-2022-final-v2.pdf
[5] These investments and/or potential investments should be clearly visible in the Stewardship Survey, which has not always been the case to date.

in its stewardship activities, and when considering licensing and regulatory decisions in respect of any existing licensees with ambitions to continue producing into the 2030s.

I am setting out these expectations so that the NSTA can work closely and openly with licensees in the delivery of upcoming projects and look forward to actively supporting licensees in delivering the UK government's commitment to reach net zero by 2050. For example, the NSTA will continue to liaise with the Department for Energy Security and Net Zero and Ofgem and other regulators for urgent clarity on their regulatory pathways for electrification projects.

I do also note concerns raised by licensees about the Energy Profits Levy, however I believe these should be allayed by the impact of the decarbonisation investment allowance.

If you require any clarification, please do not hesitate to engage with your contacts in the NSTA area teams.

Yours faithfully,

Tom Wheeler
Operations Director

Annex A

NSTA principles applied to licensing and regulatory decisions for existing installations intended to continue producing into the 2030s.

1. To satisfy the Strategy obligation to reduce greenhouse gas ('**GHG**') emissions, *as far as is reasonable in the circumstances*, the NSTA will normally require owners of such installations to ensure that a full technical and economic assessment of low carbon power solutions is undertaken and, where *reasonable*, to participate in regional low carbon power schemes and/or invest in standalone low carbon power solutions.

2. In assessing whether licensees are meeting this obligation, the NSTA will consider the potential emissions saved and other quantifiable benefits from electrification, the expected remaining value of reserves potentially developed through that installation (including infill and potential near-field developments), the expected cost of low carbon power solutions, and any technology constraints. Licensees with an interest in an installation where investment is assessed as *reasonable,* but no such investment is made, should in principle have no expectation that the NSTA will issue any further consents to increase production through that installation.

3. Where the NSTA considers that it would not be *reasonable* for licensees to invest in low carbon power schemes, licensees should still be aware that in assessing prospective developments, the NSTA expects to put a high (and increasing) ***societal cost*** on the lifetime emissions caused by new consented activities and, therefore, further consents expected to increase production may still be withheld from those licensees, particularly where other fields capable of developing the reserves have invested to reduce operational emissions. This will also be considered at the NSTA's Assessment Phase.

4. So that licensees are motivated to invest in low carbon power schemes today, I should make clear that licensees are expected to invest in low carbon power schemes in their current business plans. Licensees who fail to invest now should not expect the NSTA to grant consents in the future even if, by then, the social and economic case is that it would not be *reasonable* to invest. Furthermore, the NSTA intends to look carefully at its infrastructure access guidance to ensure there is no incentive for licensees to wait for others to invest in low carbon power infrastructure. For example, licensees who later decide to invest in low carbon power projects should not normally expect the NSTA to use its powers to restrain owners of low carbon power infrastructure from seeking to recover an equitable share of sunk costs.

5. For the avoidance of doubt, and regardless of whether licensees are actively exploring low carbon power solutions, all installations involved in the production of hydrocarbons from the UKCS are by now expected to have in place GHG emissions reduction action plans setting out any other steps that would have the effect of reducing emissions resulting from the operation, including maintenance, of installations. It is the responsibility of licensees, usually through an operator, to ensure that these are kept up to date and that all *reasonable* actions identified in them are carried out promptly. Further details of the NSTA's expectations are set out in SE11.[6]

[6] [Net Zero Stewardship Expectation 11 (nstauthority.co.uk)]