Chris Gould
Energy Transition Lead

Industrial Decarbonisation and
hydrogen revenue support team
DESNZ
6th Floor
3 Whitehall Place
London
SW1A 2AW

Fuels Industry UK
1 Castle Lane
London
SW1E 6DR

Direct telephone: 020 7269 7611
Switchboard: 020 7269 7600
Email: chris.gould@fuelsindustryuk.org

8th April 2025

By email to GasShipperObligation@energysecurity.gov.uk

Funding mechanism for the hydrogen production business model

Dear Sir or Madam

Fuels Industry UK represents the seven main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, Phillips 66, Prax Refining, Shell, and Valero – are together responsible for the sourcing and supply of product meeting over 87% of UK inland demand, accounting for over a third of total primary UK energy[1].

The refining and downstream oil sector is vital in supporting UK economic activity. It provides a secure supply of affordable energy for road and rail transport, aviation, and marine applications, as well as for commercial and domestic heating. It also supplies base fluids for use in lubricants, bitumen for use in road surfacing, and graphite for use in electric vehicle batteries and as electrodes in steel and aluminium manufacture.

Fuels Industry UK welcomes the opportunity to respond to the consultation on the funding model for the hydrogen production business model.

Our responses to the consultation questions are given in Attachment 1.

[1] Based on the Department of Energy Security and Net Zero Digest of UK Energy Statistics 2024

Yours sincerely

Chris Gould

Energy Transition Lead, Fuels Industry UK

Attachment 1: Fuels Industry UK Response

1. **Do you agree with the assumption (as stated above and in the analytical annex) that gas shippers and suppliers will pass on 100% of the cost of the Gas Shipper Obligation to their customers? If you do not agree with this assumption, what do you think is a more appropriate assumption? Please explain your answer with supporting evidence.**

This is a commercial decision for companies, and we cannot comment in detail. However, we note the references in the consultation document to previous market experience of other levies such as the Green Gas Levy (GGL) and the System Operator (SO) Levy.

We note the comment costs will be passed on "as far as possible" in Section 2.1 of the consultation document. We agree that the ability of the market to pass through the costs of the Gas Shipper Obligation (GSO) needs to be monitored. The GSO may need to be reviewed to ensure that it meets the Design Principles outlined in Section 1.2 of the consultation document.

We also note that the consultation and analytical annex does not present the gas price assumption that the 2% associated with HAR1 was based on. This results in not having a value of the GSO levy in a p/therm basis, which is a significant omission. This assumption and updated calculation should be published as soon as possible.

We have concerns regarding the examples presented, based solely on the costs of HAR1, rather than including the likely costs of all hydrogen allocation rounds. The consultation discusses an increase of 2% on gas costs associated with HAR1; HAR2 is indicated to be seven times greater in scale than HAR1, so this would imply a further 14% increase in costs (16% overall). Greater ambition with further allocation rounds (including the potential inclusion of other hydrogen sources such as blue hydrogen) could further increase these costs.

There is also a compounding impact to consider; The Hydrogen Production Business Model uses the National Balancing Point (NBP) gas price as a reference price; if the NBP in reality is below the assumptions presented in the consultation, then the support level for HAR1 (and later rounds) is significantly larger as the Contracts for Difference (CfD) is linked to the NBP. The financial support required therefore is larger than the £150m in the consultation. The impact in percentage terms is compounded because of more pounds, in absolute terms, are required per therm of gas, and the gas has a lower price. For example, if the gas price was 100p/therm, and thereby the 2% increase was 2p/therm. If the NBP price dropped to 75 p/therm, then the support increases; as a simple example to £200m i.e. a 33% increase, then the % increase in gas price would become 4/3 x 100/75 = 3.6%. If HAR2 is funded in a similar way, with for example an 8x multiplier, then the increase in GSO is 28% rather than 16% as

discussed above. We would be happy to discuss these in more detail with the DESNZ team.

Taking the above into account, this consultation therefore sets the precedent for very large increases in gas prices relative to its international peers; this makes the significantly UK less competitive both with the EU and internationally. We note a similar approach was used in the development of the Climate Change Levy [2] in previous years, leading to significant costs being incurred. The piecemeal approach to analysis and policy making must be addressed to provide a complete understanding of the significant negative impacts of this approach.

2. **Do you agree that a volumetric design is more likely to facilitate a fairer distribution of costs than a meter point design? Please explain your answer and provide supporting evidence. If you disagree, please provide an explanation with supporting evidence for how a meter point design can equally or better facilitate the pass-through of costs compared with a volumetric design.**

We agree that the preferred option should be the volumetric design for the reasons outlined in the consultation document.

3. **Do you agree with our proposal to proceed with a volumetric design for the Gas Shipper Obligation? Please explain your answer and provide supporting evidence.**

We agree that the preferred option should be the volumetric design for the reasons outlined in the consultation document.

4. **Do you agree with the proposal for the Administrator to use the underlying data set for the GNTS charge on Exit (potentially subject to modifications as set out above) as a basis for determining the quantity of gas shipped for the calculation of collection amounts? Please explain your reasoning with any supporting evidence. If you disagree, please set out any alternative approaches which could be used and explain why you consider them to be preferable and how they align with the design principles.**

We cannot comment on this question in detail.

[2] https://www.gov.uk/guidance/climate-change-levy-rates#climate-change-levy

5. **Please provide suggestions of any data or evidence that could be used to determine current and future quantities of gas conveyed outside of GB through interconnectors? Please explain your answer and provide evidence to support your response.**

We cannot comment on this question in detail.

However, information sources such as the Digest of UK Energy Statistics (DUKES) [3] are publicly available and may be useful to make this determination.

6. **What are your views on the possible exclusion of gas shipped to interconnectors for conveyance outside of GB from the determination of quantities of gas shipped for the calculation of collection amounts? Please explain your answer and provide any supporting evidence.**

Fuels Industry UK is of the view that the GSO costs should be included in the gas volumes shipped outside of the UK. This ensures that the significant costs are borne by as large a gas volume as possible, with the exception of gas supplied to industries at risk of carbon leakage (as noted in our response to questions 33 onwards).

7. **Do you agree with our intention to use reconciled gas quantities to derive actual gas consumption when calculating the collection amounts? Please explain your answer and provide any supporting evidence.**

We cannot comment on this question in detail.

However, a Value for Money (VfM) test should be applied on the methodology to ensure it is appropriate. It does not make sense to spend a few million in administration costs to redistribute a few million in collection amounts.

8. **Do you have any views on how best to include reconciled gas quantities within the GSO, including whether to implement an earlier cut-off date than the standard four-year process, and whether you have any views on running the gas reconciliation process and correction of payments less frequently than the collection frequency? Please explain your reasoning with any supporting evidence.**

We note the references to the future treatment of hydrogen in gas networks outlined in Section 3.2.4 of the consultation document. We agree that the treatment of

[3] https://www.gov.uk/government/collections/digest-of-uk-energy-statistics-dukes

hydrogen needs to be reviewed to ensure that it meets the Design Principles outlined in Section 1.2 of the consultation document.

9. Do you agree with the proposal to take the Market Share approach set out in Option A to calculate gas shippers' collection amounts for an obligation period? Please explain your answer and provide supporting evidence.

We agree that the Market Share approach seems to be a pragmatic method of calculating a gas shipper's collection amounts for an obligation period.

10. Are there any other options for calculating gas shippers' collection amounts for an obligation period that you think should be considered? Please explain your reasoning and provide any supporting evidence.

We are not aware of any other options for calculating gas shippers collection amounts that should be considered at this time.

11. What are your views on how shippers will manage the uncertainty under each option? Please explain your answer and provide supporting evidence.

This is a commercial matter for gas shippers to answer, and we cannot respond to this question.

12. Do you have any views on how we should manage new gas shippers entering the market when calculating gas shippers' collection amounts for an obligation period? Please explain your answer and provide any supporting evidence.

For the avoidance of doubt, there should be no retrospective levy put on existing suppliers as a result of companies exiting the market. Any deficits incurred must be rolled over into future periods.

We would also encourage learning from previous UK, and international, schemes to look to ways in which this issue can be managed, meeting the Design Principles outlined in Section 1.2 of the consultation document.

13. Do you have any views on how we should manage gas shippers exiting the market when calculating gas shippers' collection amounts for an obligation period? Please explain your answer and provide any supporting evidence.

We would encourage learning from previous UK, and international, schemes to look to ways in which this issue can be managed, meeting the Design Principles outlined in Section 1.2 of the consultation document.

For the avoidance of doubt, there should be no retrospective levy put on existing suppliers as a result of companies exiting the market. Any deficits incurred must be rolled over into future periods.

14. Do you agree with the proposal for the Gas Shipper Obligation to operate on a monthly obligation period and collection frequency? Please explain your answer and provide supporting evidence.

We cannot comment on this question in detail.

15. Do you agree with our proposal for the obligation period to precede the HPBM billing period by at least two months, dependent on the length of obligation period and collection process? Please explain your answer and provide supporting evidence.

We cannot comment on this question in detail.

16. Do you agree with the proposal for the signal forecast to include aggregated monthly costs projected over a year, and for it to be updated on a rolling monthly basis? Please explain your answer and provide supporting evidence.

This seems to be a pragmatic approach, at least in the early stages of the GSO operation. These arrangements should be reviewed to ensure that it meets the Design Principles outlined in Section 1.2 of the consultation document.

17. Are there any other considerations that should be taken into account to help improve sight of anticipated costs and shipper readiness? Please explain your answer and provide supporting evidence.

Fuels Industry UK does not have any further information on considerations that should be considered to help improve sight of anticipated costs and shipper readiness

18. What are your views on the options for further mitigating the risk of under-collection (option A – headroom, and option B – separate reserve pre-payment)? Please explain your answer and provide supporting evidence.

Option A reduces the risk to the government and is financially attractive to them (generating a pot of money on which interest can be generated). However, it does so at a cost to the UK economy, participants in which have to fund this over-collection. This comes at a time when the UK economy is generally considered to be under considerable strain and should be avoided as far as possible.

Option B allows for a fairer allocation of funds between government and the wider UK economy and should be the preferred option.

19. Are there any other options for mitigating the risk of under-collection that you think should be considered? Please explain your answer and provide supporting evidence.

We cannot comment on this question in detail.

Natural gas demand is well understood in the UK, based on years of available data.

20. What are your views on the handling of overcollection (option A – offsetting, and option B – returning over-collected sums)? Please explain your answer and provide supporting evidence.

Option A reduces the risk to the government and is financially attractive to them (generating a pot of money on which interest can be generated). However, it does so at a cost to the UK economy, participants in which have to fund this over-collection. This comes at a time when the UK economy is generally considered to be under considerable strain and should be avoided as far as possible.

Option B allows for a fairer allocation of funds between government and the wider UK economy and should be the preferred option.

21. Are there any other options for the handling of overcollection that you think should be considered? Please explain your answer and provide supporting evidence.

Option A reduces the risk to the government and is financially attractive to them (generating a pot of money on which interest can be generated). However, it does so at a cost to the UK economy, participants in which have to fund this over-collection. This comes at a time when the UK economy is generally considered to be under considerable strain and should be avoided as far as possible.

Option B allows for a fairer allocation of funds between government and the wider UK economy and should be the preferred option. We are not aware of any other options for the handling of overcollection at this time.

22. Do you have any views on whether the administrative and operational costs of the Gas Shipper Obligation should be separated from the other costs of the HPBM, such as payments under relevant contracts? Please explain your reasoning and provide supporting evidence.

We have no firm views; however, the consultation suggests that the administrative and operational costs are separated in other schemes such as the GGL and SO schemes. We would suggest that a consistent approach would be best, and the GSO should follow the precedent set by earlier schemes.

23. Do you agree with our estimates of the administrative burden to shippers, including the types of costs identified, the impact on small shippers, and the assumptions underpinning them, including in relation to gas suppliers, as set out in the analytical annex? Please explain your reasoning and provide supporting evidence.

We agree that the estimates on the administrative burden as set out in the analytical annex and articulated in the consultation document do not seem unreasonable at this time.

It would be helpful to use the administrative burden imposed by the GGL and the SO schemes as an example, as we would not expect the GSO administration costs to be materially different from these given the similarity of the scheme.

24. Do you think credit cover should be used as a mechanism to mitigate against the risk of defaulted payments bearing in mind the alternative measure of significantly increased contingency payments, should credit cover not be used? Please explain your answer and provide supporting evidence.

This is a commercial matter between the government and gas shippers who are looking to manage default risks associated with the GSO. We have no comments on the suitability of these mechanisms.

25. If the design of the scheme includes a credit cover process, do you have any views on how to best minimise non-compliance with credit cover obligations, including enforcement arrangements? Please explain your reasoning and provide any supporting evidence.

This is a commercial matter between the government and gas shippers who are looking to manage default risks associated with the GSO. We have no comments on the suitability of these mechanisms.

26. Are letters of credit and cash feasible options for lodging credit cover? Please explain your answer and provide supporting evidence.

This is a commercial matter between the government and gas shippers who are looking to manage default risks associated with the GSO. We have no comments on the suitability of these mechanisms.

27. What are your views on the appropriate credit cover period (options A-C above)? Please explain your answer and provide supporting evidence.

This is a commercial matter between the government and gas shippers who are looking to manage default risks associated with the GSO. We have no comments on the suitability of these mechanisms.

28. If the design of the scheme includes a credit cover process, are there any other considerations we should take into account? Please explain your reasoning and provide any supporting evidence.

This is a commercial matter between the government and gas shippers who are looking to manage default risks associated with the GSO. We have no comments on the suitability of these mechanisms.

29. Do you agree with the proposed mutualisation process? In particular, that mutualisation would be exercised at the discretion of the Administrator with calculations of mutualised amounts based in proportion to quantities of gas shipped (similar to the main collection amount)? Please explain your answer.

This seems to be consistent with the approach taken in other levy schemes such as the GGL and SO schemes.

For the avoidance of doubt, there should be no retrospective levy put on existing suppliers as a result of companies defaulting or exiting the market. Any deficits incurred must be rolled over into future periods.

30. Do you have any views on how quickly reimbursement of mutualisation payments should take place where costs are later recovered from the defaulting shipper and whether they should take place based on a set frequency? Please explain your answer and provide supporting evidence.

We have no detailed comments on this approach other than to suggest that the timing of reimbursement should be consistent with other levy schemes such as the GGL and SO schemes.

31. Do you agree with the compliance and enforcement levers proposed above? Should the Government consider any other compliance and enforcement actions, in addition to those captured above? Please explain your reasoning and provide any supporting evidence.

The compliance and enforcement levers proposed seem a pragmatic approach. We note that the GSO approach is consistent both with the enabling legislation and with the SO levy scheme.

32. Do you have any views regarding the design and implementation of an appeals process? Please explain your answer and provide supporting evidence.

We note that the appeals process is proposed to by handled by the Administrator in the first instance., who may be responsible for causing the issue subject to the appeal. We would ask that additional guidance is published on how appeals can ultimately be escalated outside of the administrator organisation. For example, does the appropriate minister have final say in the event that an appeal cannot be appropriately resolved; the alternative would potentially be a costly judicial review. It would be helpful for all concerned if this could be clarified as part of the roll-out of the GSO.

33. Do you consider that gas intensive industries would be at risk of carbon leakage due to GSO costs? And if so, should government consider exempting gas quantities shipped to these industries from GSO charges? Please explain your answer and provide supporting evidence.

Yes

A number of gas intensive industries, including the refining sector, in the UK are already at risk of carbon leakage prior to the addition of further GSO costs.

The application of GSO costs will only amplify the already significant carbon leakage risk. We therefore strongly urge the government to exempt gas intensive industries from the GSO; a failure to do this is likely to result in even further pressures to close UK refineries (in addition to Grangemouth in 2025).

We have concerns regarding the examples presented, based solely on the costs of HAR1, rather than including the likely costs of all hydrogen allocation rounds. The consultation discusses an increase of 2% on gas costs associated with HAR1; HAR2 is indicated to be seven times greater in scale than HAR1, so this would imply a further 14% increase in costs (16% overall). Greater ambition with further allocation rounds (including the potential inclusion of other hydrogen sources such as blue hydrogen) could further increase these costs.

There is also a compounding impact to consider; The Hydrogen Production Business Model uses the National Balancing Point (NBP) gas price as a reference price; if the NBP in reality is below the assumptions presented in the consultation, then the support level for HAR1 (and later rounds) is significantly larger as the Contracts for Difference (CfD) is linked to the NBP. The financial support required therefore is larger than the £150m in the consultation. The impact in percentage terms is compounded because of more pounds, in absolute terms, are required per therm of gas, and the gas has a lower price. For example, if the gas price was 100p/therm, and thereby the 2% increase was 2p/therm. If the NBP price dropped to 75 p/therm, then the support increases; as a simple example to £200m i.e. a 33% increase, then the % increase in gas price would become 4/3 x 100/75 = 3.6%. If HAR2 is funded in a similar way, with for example an 8x multiplier, then the increase in GSO is 28% rather than 16% as discussed above. We would be happy to discuss these in more detail with the DESNZ team.

Taking the above into account, this consultation therefore sets the precedent for very large increases in gas prices relative to its international peers; this makes the significantly UK less competitive both with the EU and internationally. We note a similar approach was used in the development of the Climate Change Levy [4] in

[4] https://www.gov.uk/guidance/climate-change-levy-rates#climate-change-levy

previous years, leading to significant costs being incurred. The piecemeal approach to analysis and policy making must be addressed to provide a complete understanding of the significant negative impacts of this approach.

We note the recent DESNZ consultation on free allocations and carbon leakage [5], to which Fuels Industry UK provided a detailed response [6]. The UK refining sector is at a high risk of carbon leakage and has been excluded from the initial list of sectors covered by a CBAM starting in 2027.

Previously Fuels Industry UK has responded to the 2023 UK ETS Free Allocation Review consultation[7] and agreed then that the refining sector is at a high risk of carbon leakage, that the current FAA regime does a poor job of protecting against the risk of carbon leakage, and that with the prospect of FAA levels reducing still further the refining sector should be brought within scope of the UK CBAM regime.

Since then, despite our response and proactive efforts to engage government teams on this topic, the overall level of FAA remains unchanged, the sector has been left outside of the scope of the UK CBAM regime. And one further refinery has announced closure stating that a contributory factor was cost of UK ETS compliance. The sector is therefore at significant risk of decarbonisation through deindustrialisation rather than a managed net zero transition.

Further to our points above, where the addition of GSO costs will amplify the risks of carbon leakage, we strongly urge the government to exempt gas quantities shipped to these industries from the GSO charges.

[5] https://www.gov.uk/government/consultations/uk-emissions-trading-scheme-free-allocation-review-carbon-leakage
[6] https://www.fuelsindustryuk.org/media/1qmjv32z/commission-on-carbon-competitiveness-call-for-evidence-march-2025.pdf
[7] https://www.fuelsindustryuk.org/media/s4bfojn5/uk-ets-free-allocation-review-review.pdf

34. Are there any other factors besides carbon leakage that could be considered as grounds for an exemption for gas quantities used by gas intensive industries? Please explain your answer and provide supporting evidence.

The principles of defining carbon leakage with definitions of "electricity intensity" and "trade intensity" are well established and understood by stakeholders. We would encourage that these concepts are retained in the development of exemptions for gas quantities used by gas intensive industries to ensure consistency with existing government policy.

However, we disagree with the application of these metrics to the refining industry by NERA in the recent consultation on free allowances and carbon leakage.

For the case of refining, the filter for sector information (NACE code, to two-digit level 19.20) and for product information (CN code, to four-digit level 2710) are too broad, with result that many non-refinery businesses and non-refined products are included in the calculation. This is so significant that there are at least 15 nonrefining / non-ETS paying businesses included for every refinery included in the data, significantly increasing turnover and GVA values used in the CLI calculation.

We would recommend that the trade and GVA data used is limited to just those companies that are in scope of the ETS.

The choice of baseline years is not representative of standard trading years, specifically in 2020 and 2021 the impacts of Covid hit demand and price of crude and refined products in an unprecedented way, leading to lower refining margins, lower imports, lower exports and much reduced GVA. The reason this is important is that trade intensity calculation is strongly influenced by the quantity and value of imports and exports and the GVA of the sector. Furthermore, when GVA goes negative the output of the formula for Trade Intensity does not seem valid.

We propose a method that uses company-based sector information from just the six refineries, product information that is confined by 8-digit CN code to refinery products, and which uses 2019, 2022 and 2023 as the most appropriate baseline years (excluding the Covid outlier years of 2020 and 2021).

Fuels Industry UK assesses the CLI to be over 5 compared to NERA report value of 2.35.

35. Please provide suggestions for metrics that could be used to define 'gas intensive industries' (for example gas intensity and trade intensity) and any evidence or data that could be used to support that definition.

As we indicate in our response to Q33, the principles of defining carbon leakage with definitions of "electricity intensity" and "trade intensity" are well established and understood by stakeholders. We would encourage that these concepts are retained in the development of exemptions for gas quantities used by gas intensive industries to ensure consistency with existing government policy.

The addition of a criteria "gas intensive industry" is a new metric and may cause confusion and divergence from existing metrics used to define carbon leakage. We would therefore ask that a review of the sectors that are either included, or excluded from the current list of at-risk sectors is carried out, to determine if there is a material shift with the use of the new metric.

Given the strong linkage in the UK between electricity prices and gas prices, we would not expect there to be a significant change in the list of sectors at risk of carbon leakage when using the different metrics. This includes the refining sector, who are a significant gas intensive industry and at significant risk of carbon leakage as confirmed in our responses to Q33 and Q34.

36. Please provide suggestions of any additional eligibility criteria that may be needed and any data that could be used/evidence that could be required to determine whether the criteria have been met.

We would argue that there should be as little deviation as possible from the existing eligibility criteria used by Energy Intensive Industries as possible to ensure a consistent approach, avoiding confusion and increasing the administrative burden for all concerned.

To this end, we would not encourage the government to use additional additionality criteria from those already established.

37. Please provide suggestions for how an exemption for gas-intensive industries could be implemented and the lessons that can be learnt from how existing exemption schemes are delivered, including the British Industry Supercharger.

Three separate Statutory Instruments (Sis) have been laid in Parliament covering policies under the British Industry Supercharger (BIS) due to come into effect in April 2024.

The three SIs are:

The Renewables Obligation (Amendment) (Energy Intensive Industries) Order 2024 [8], laid on 23 January, increases the level of exemption for the Renewables Obligation (RO) levy from 85% to 100%. This amounts to a £5/MWh reduction on electricity costs.

The Energy-Intensive Industry Electricity Support Payments and Levy Regulations 2024 [9], laid on 22 January, provides compensation for EIIs against network charges incorporated in electricity supply costs.

The Electricity Capacity (Supplier Payment etc.) (Amendment and Excluded Electricity) Regulations 2024 [10], also laid on 22 January, which provides full indirect exemption from the costs associated with the UK Capacity Market. This also amounts to a saving of around £5/MWh.

Refineries are eligible under all three schemes, but it is unclear how refinery operators with auto-generation or supply over third party networks are exempt from these costs.

We would therefore strongly encourage government to review the treatment of refineries with auto-generation or supply over 3rd party networks and provide appropriate exemptions in a consistent manner. This ensures that refineries are treated equitably regardless of their internal utilities arrangements.

[8] https://www.legislation.gov.uk/uksi/2024/403/contents/made
[9] https://www.legislation.gov.uk/uksi/2024/409/contents/made
[10] https://www.legislation.gov.uk/uksi/2024/434/contents/made

38. Should gas quantities shipped to CCUS-enabled hydrogen projects capable of meeting the UK Low Carbon Hydrogen Standard be exempt from the Gas Shipper Obligation charges? Please explain your answer and provide supporting evidence.

Fuels Industry UK does not have a consensus view on this question.

The consultation document indicates that placing the GSO on gas shipped to CCUS enabled hydrogen producers could be seen as at odds with the objectives of the HPBM, incentivising production and use of low carbon hydrogen. Natural Gas is a crucial feedstock and energy vector used in the production of CCUS enabled hydrogen projects, with such projects also being supported by the CCUS business model. However, CCUS-enabled projects are generally at a lower carbon leakage risk, and there should be consistent, technology neutral application of the GSO design principles as far as possible.

Projects such as those in the Track 1, Track 1 expansion and Track 2 clusters will have negotiated government funding for these projects on the basis of known assumptions. The addition of further feedstock costs as a result of the GSO are unlikely to have been factored into these assumptions.

The change in basis will therefore increase costs for investors in CCUS projects and represents a change in basis out with their control. It may lead to the UK being a less attractive place to invest, reducing UK economic growth and the opportunity for the UK to be seen as a green energy powerhouse, as outlined by the government [11].

However these risks can be mitigated should there be effective change in law clauses in place for projects, which do allow them to update agreements to provide an ongoing business case taking into account the higher gas costs as a result of the GSO levy.

39. Please provide suggestions of eligibility criteria and any data that could be used/evidence that could be required to determine whether the criteria have been met. Please explain your answer and provide evidence to support your response.

We agree that the use of the low carbon hydrogen standard is a useful place to start with regards to eligibility criteria.

In the early phases of CCUS enabled hydrogen, notably with the Track 1 projects, there will be significant government scrutiny on these projects to ensure that public spending is appropriately allocated. This will be carried out by DESNZ and is very likely

[11] https://labour.org.uk/change/mission-driven-government/

to include the quantification of key feedstocks used, including natural gas (used both as a feedstock and as an energy source).

We would therefore strongly encourage the GSO team to work closely with the CCUS team in DESNZ to harmonise the reporting requirements under both schemes. This will reduce the administrative burden for all concerned, allowing the gas volumes to be appropriately exempted from the GSO.

In line with the CCUS future vision [12], the market may move to a more commercial basis over time. As this occurs, the mechanisms for the GSO exemption for CCUS enabled hydrogen projects may need to be reviewed, including under a change of law clause as outlined in our response to Q38, to ensure that they remain fit for purpose.

40. Please provide suggestions for how an exemption for CCUS-enabled hydrogen projects could be implemented.

In the early phases of CCUS enabled hydrogen, notably with the Track 1 projects, there will be significant government scrutiny on these projects to ensure that public spending is appropriately allocated. This will be carried out by DESNZ and is very likely to include the quantification of key feedstocks used, including natural gas (used both as a feedstock and as an energy source).

We would therefore strongly encourage the GSO team to work closely with the CCUS team in DESNZ to harmonise the reporting requirements under both schemes. This will reduce the administrative burden for all concerned, allowing the gas volumes to be appropriately exempted from the GSO.

In line with the CCUS future vision, the market may move to a more commercial basis over time. As this occurs, the mechanisms for the GSO exemption for CCUS enabled hydrogen projects may need to be reviewed, including under a change of law clause as outlined in our response to Q38, to ensure that they remain fit for purpose.

[12] https://www.gov.uk/government/publications/carbon-capture-usage-and-storage-a-vision-to-establish-a-competitive-market

41. Should government be considering any other potential exemptions from the GSO? If you answer yes to this question, please explain your rationale as well as suggestions of eligibility criteria and any data or evidence that could be used/required to determine whether the criteria have been met. Please provide evidence to support your response.

We have no suggestions for other potential exemptions from the GSO at this time. However, in line with our responses to Q33 and Q34 we strongly urge government of exempt energy intensive industries such as refining from the levy in order to avoid further decarbonisation through deindustrialisation.

42. Is there anything else you would like to share with us on the design and operation of the Gas Shipper Obligation?

The GSO is an additional levy with a specific purpose, introduced to fund the hydrogen production business model.

It follows other levies, including the GGL and SO levies, which have been in place for a number of years.

We strongly urge the government to follow a consistent approach across all levies as far as possible in order to reduce confusion and reduce the administrative burden for all concerned.

As discussed in our response to Q38, the use of gas shipped to CCUS-enabled hydrogen should be exempt from the GSO.