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By email to ccus.future.network.strategy@energysecurity.gov.uk

Future Network Strategy for CO2 Transport and Storage

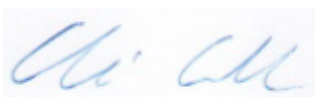
Dear Sir or Madam

Fuels Industry UK represents the six main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, Phillips 66, Shell, and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for over a third of total primary UK energy¹.

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.

Our response to the questions posed in the consultation is attached in Appendix A:

Yours sincerely



Chris Gould

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

Appendix A: Fuels Industry UK response

Consultation questions

1. Who are you responding on behalf of, and what is your interest in this call for evidence?

Fuels Industry UK

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Our members are active in CCUS clusters, most notably the HyNet Cluster and the East Coast Cluster. As such we have an interest in the development of the future CCUS transport and storage strategy and this call for evidence.

Fuels Industry UK welcomes the opportunity to respond to the call for evidence on the future network strategy for CO₂ transport and storage.

2. In responding you confirm that you consent to members of the team reaching out for clarifications on responses provided, please provide contact details.

3.

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4. In responding you confirm that you give permission for your anonymised responses to be shared with external advisors, ALBs and regulators where appropriate for the purpose of analysis.

We confirm said permission.

5. What are the key positive drivers for investment from your perspective that would remove the need for RSA and GSP support?

The key drivers for investment for the sector are cost mitigation and regulatory certainty.

Cost mitigation is derived from avoided Emission Trading Scheme (ETS) costs, using the CCUS infrastructure to avoid compliance costs. However, the ETS price has to be sufficiently high to justify the business case for significant investments and allow the Final Investment Decisions (FIDs) to be taken. The high ETS price, whilst driving investment, significantly increases the risks of carbon leakage. Therefore, appropriate carbon leakage mitigation needs to be put in place, such as a cross-border adjustment mechanism. Two refineries in the UK have closed this year (Petroineos Grangemouth and Prax Lindsey), to be replaced with imports largely from countries with no carbon pricing, showing that the sector is currently experiencing carbon leakage.

Regulatory certainty is also vital to allow robust FIDs to be taken. The current political environment does not provide this, making these decisions more challenging. Government needs to provide the certainty including over multiple electoral cycles and avoid altering requirements for political purposes.

A failure to provide these risks decarbonisation through deindustrialisation, increasing overall emissions, leaving stranded CCUS assets and representing a failure of government ambition.

6. What do current and prospective network operators predict needs to be done to mitigate and manage future demand fluctuations and stranded asset risks?

Fuels Industry UK does not have sufficient expertise in this area to respond; companies such as ENI and Endurance may be better placed to provide a meaningful response.

7. How can commercial insurance products be tailored to better characterise the unique risks associated with CO2 transport and storage, such as leakage and stranded asset risks?

Fuels Industry UK does not have sufficient expertise in this area to respond; companies such as ENI and Endurance may be better placed to provide a meaningful response.

8. How can cross-sector collaboration (from financiers and insurance providers) be optimised to enhance financing and investment in future CO2 networks?

Fuels Industry UK does not have sufficient expertise in this area to respond; companies such as ENI and Endurance may be better placed to provide a meaningful response.

9. Should government evolve the nature of support made available to future T&S networks, to help enable market transition? Please set out your rationale and suggest any steps that could be taken.

The government will need to evolve the nature of support made available to future T&S networks, whilst providing long term regulatory certainty.

The CCUS networks have not yet been built, and so it is too early to say in which way they will be used in practice. The learning from the initial phase of deployment will need to be taken into account in future developments.

There needs to be regular engagement with stakeholders to obtain feedback on how the initial deployment has progressed, including support and future plans. These can then be taken into account when deciding how to update the support and enable the market transition.

If support is removed too early without due consideration for the financial drivers for investment or mitigation of carbon leakage risk, then there will simply be decarbonisation through deindustrialisation, rather than the growth of the CCUS system in the UK.

10. How can co-investment from bodies such as NWF/GBE best play a role in deploying future CO2 networks and help enable market transition?

Fuels Industry UK does not have sufficient expertise in this area to respond; companies such as ENI and Endurance may be better placed to provide a meaningful response.

11. How can the evolution of the Code and capacity products be optimised to enhance network utilisation and reduce reliance for the T&S operator, on external financial support mechanisms?

Given that a working CCUS transport and storage network has not been built in the UK yet, much less commissioned, it is difficult to provide a detailed answer to this question.

We would suggest that there needs to be regular engagement with stakeholders (including emitter projects) to obtain feedback on how the initial deployment has

progressed, including the effectiveness of the network code. These can then be taken into account when deciding how to update the Code and enable the market transition.

If support is removed too early without due consideration for the financial drivers for investment or mitigation of carbon leakage risk, then there will simply be decarbonisation through deindustrialisation, rather than the growth of the CCUS system in the UK.

12. What specific flexible capacity products, interruptible offerings and/or network access would be required by different user types to best address the inefficiencies caused by seasonal fluctuation or another other reason for variable CO2 flows under the current Code?

Some carbon capture projects have more in-built flexibility and that flexibility can be used to prioritise one source against other sources and/or to 'top up the CO2 pipeline capacity at all times'. The current Code does not make a distinction between flexible and non-flexible suppliers, but if a distinction were to be made, then flexible suppliers could be treated differently, and the revenue support mechanism could be tailored to ensure emitter projects deploy that flexibility for a premium.

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13. Does industry see a need for government to help define wider commercialisation priorities for the Network Code? Or are priorities sufficiently clear that industry can deliver on them, outside of or through an Ofgem SCR?

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14. What are the key considerations for spatial planning and optimisation when integrating CCUS with wider energy and industrial systems, particularly in relation to existing and new infrastructure for hydrogen and natural gas?

Fuels Industry UK does not have sufficient expertise in this area to respond; companies such as ENI and Endurance may be better placed to provide a meaningful response.

15. How can the resilience and redundancy of CO₂ networks be enhanced to mitigate the risks associated with single-point failures and ensure continuous operation during maintenance or unforeseen outages?

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16. Is there potential for different roles and responsibilities on the planning of future network build-out and new connections? What would the advantages and disadvantages be of any alternatives?

Inevitably there will be the potential for different roles and responsibilities in the planning of the future CCUS network.

However, given that a working CCUS transport and storage network has not been built in the UK yet, much less commissioned, it is difficult to provide a detailed answer to this question.

We would suggest that there needs to be regular engagement with stakeholders to obtain feedback on how the initial deployment has progressed. These can then be taken into account when deciding how to plan future developments.

17. What benefits, disbenefits, complexities and challenges do you believe disaggregation of the Licence will bring?

Given that a working CCUS transport and storage network has not been built in the UK yet, much less commissioned, it is difficult to provide a detailed answer to this question

We would suggest that there needs to be regular engagement with stakeholders to obtain feedback on how the initial deployment has progressed. These can then be taken into account when deciding how the license can be amended, including the potential impacts of disaggregation.

18. Do the two operator models as presented above show merit and meet expectations for a wider system model approach? Are there any significant benefits or challenges that either model presents from your perspective? Are there any other models you would propose?

Fuels Industry UK does not have a firm view in response to this question.

However, we would suggest that the next entity model is more reasonable, with payments following the carbon stored. This allows liability and ownership to follow more easily, reducing contractual complexities. It also mirrors the approach taken in other sectors, such as the downstream oil sector; for example, payments and ownership of fuel often pass through several companies before reaching the end consumer.

19. What broad provisions/concepts within the Code and accompanying contractual arrangements do you believe require further evolution to support the unbundling of network entities and manage the cross-chain risks that unbundling might create?

Given the nascent nature of the industry, Fuels Industry UK cannot respond to this question in detail.

20. What can the UK learn from the various delivery approaches in use by nearby countries, and could any learnings be beneficially applied in the UK context? Please include thoughts in respect of operating model implications.

Given the lack of deployment of CCUS globally, it is difficult to comment in detail on this question; we note the Danish and Dutch experience referenced in the call for evidence document. It will be interesting to see the effectiveness of different approaches as the projects develop through to commissioning and utilisation.

In line with our response to Q4, we would discourage the UK government from significantly amending the UK requirements at this stage. The UK network should be

allowed to develop without undue hinderance and interference now that the initial rules have been established. Undue interference risks undermining investor confidence by reducing regulatory certainty and should be avoided.

21. How do respondents envision the incorporation of non-government backed operators and users being realised and what do you believe are the key requirements for their inclusion in a timely manner?

Provided that there is sufficient demand for CCUS infrastructure, it will develop in a manner that meets the needs of merchant capture connections. However, this requires investment, with an appropriate business case to enable the FIDs to be taken, just as with any other investment.

These cases, as with that of the CCUS infrastructure itself, can be justified by stable government policy. This includes in areas such as sustainable aviation fuel, and greenhouse gas removals as well as CCUS policy itself.

Once these issues are addressed, then investment will flow in order to manage the resilience aspects. The network code can then be reviewed to ensure that it meets the needs of stakeholders and encourages CCUS investment.

22. What key enabling factors/steps does industry see as being needed for a market transition phase to enable growth in a self-sustaining market? Are there any other significant considerations, benefits or challenges that you believe could impact market transition that have not been discussed within this document?

The key drivers for investment in, and usage of the for the sector are cost mitigation and regulatory certainty.

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23. What does industry believe is within their power to do to aid in market transition as discussed in this document?

UK refineries operate in a global market, as part of global parent companies who have a range of investment opportunities to consider. The UK therefore needs to be seen as an attractive place for investment, which can be very challenging.

The UK government has a stronger role to play than UK refineries in providing a competitive environment in which to invest. The risk of carbon leakage in the sector is significant and must be addressed in order for UK refineries to be competitive, allowing ongoing operation and investment.

A failure to provide these risks decarbonisation through deindustrialisation, increasing overall emissions, leaving stranded CCUS assets and representing a failure of government ambition.
