



Policy Update and Review of 2022

Integrating Oil & Gas with New Energy Technologies

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30 November 2022

Oil & Gas | Hydrogen | CCUS | Offshore Wind

An Integrated Offshore Energy Sector

An important part of the UK economy

The UK offshore energy industry produces homegrown energy which powers the nation and adds economic value



Reliable energy

Production from the UKCS in 2021 was equal to more than **50%** of the UK's oil and gas consumption



Supporting jobs

The sector supports an estimated **214,000 jobs** across all areas of the UK



Economic contribution

£2.1 million of economic value is created for every **£1 million** spent on oil and gas activities

The sector is on course to pay around **£15 billion** in 2022/23 in production taxes, and over **£80 billion** by 2028



Innovation

The sector's **technology, experience and skills** will be crucial in the development and deployment of low carbon and renewable energy systems

Priorities for the UK Energy Sector

UK oil and gas in the context of Energy Supply Crisis

Deliver the investment needed for reliable supplies and the net zero energy system

Redesigning markets to reflect wider range of energy sources and business models

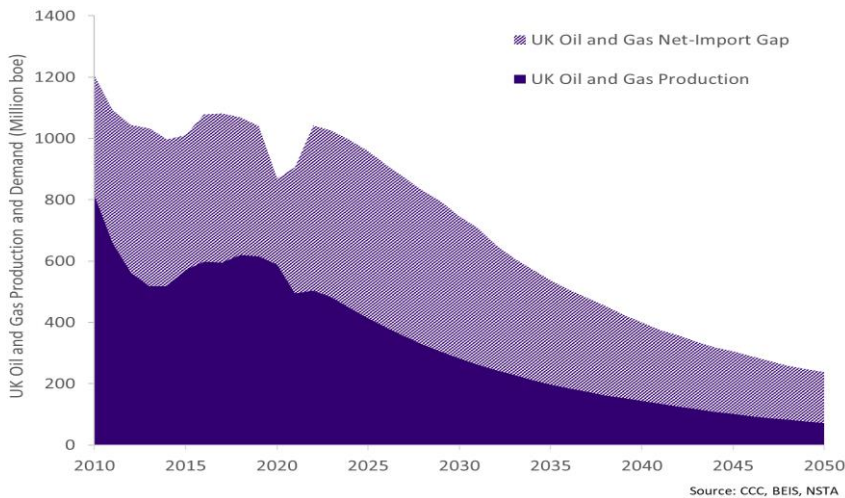
Getting through the energy crisis – has the right balance been achieved?

- 1 Stable regime to accelerate primary energy production and storage across the board
- 2 Direct intervention in prices is superficially attractive but carries substantial risk, further liquidity destruction and physical shortfalls
- 3 Measures are required to offset impacts across households and businesses
- 4 Changes to market design make sense but cannot be rushed and more about dealing with future with high renewables than sticking plaster for today's situation
- 5 Demand measures and energy efficiency: long overdue but not a quick fix

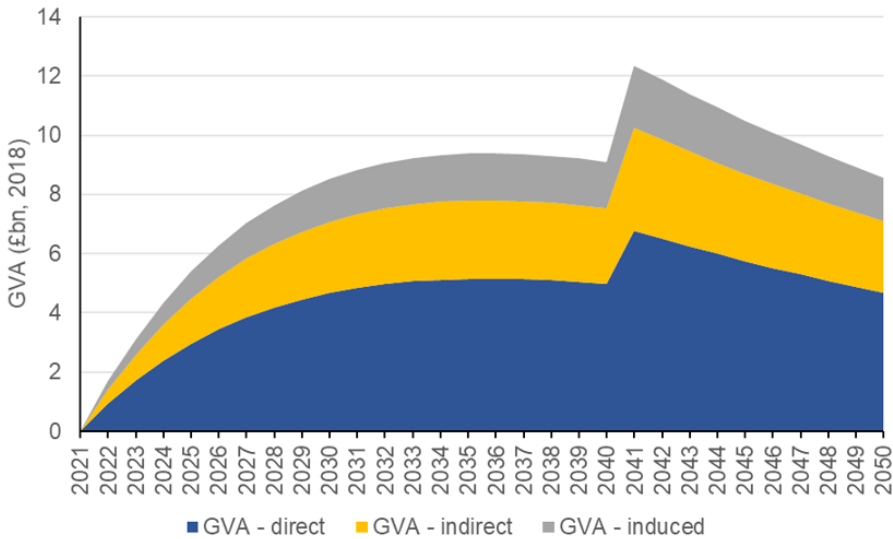


Domestic production and infrastructure has helped shield UK from some of the impacts of the crisis and the policy case for continued investment remains strong

RELIABLE
SUPPLIES
ARE STILL
NEEDED



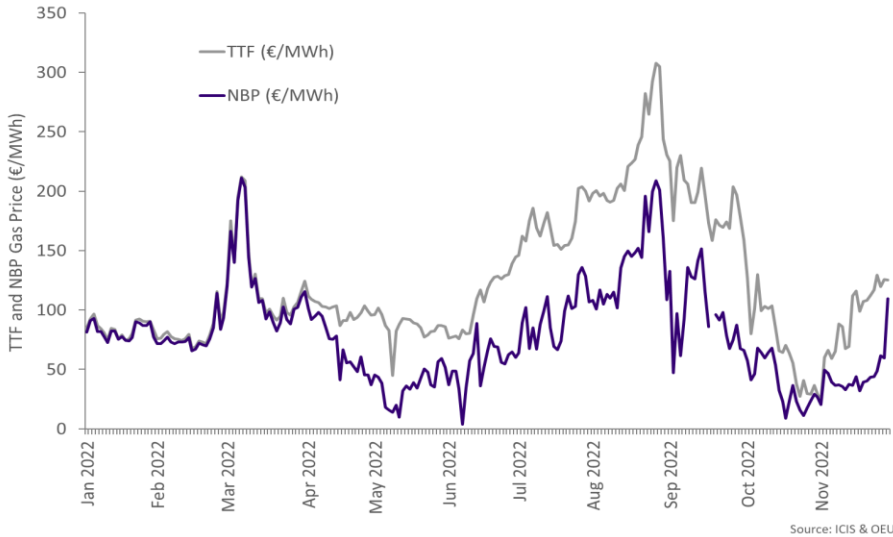
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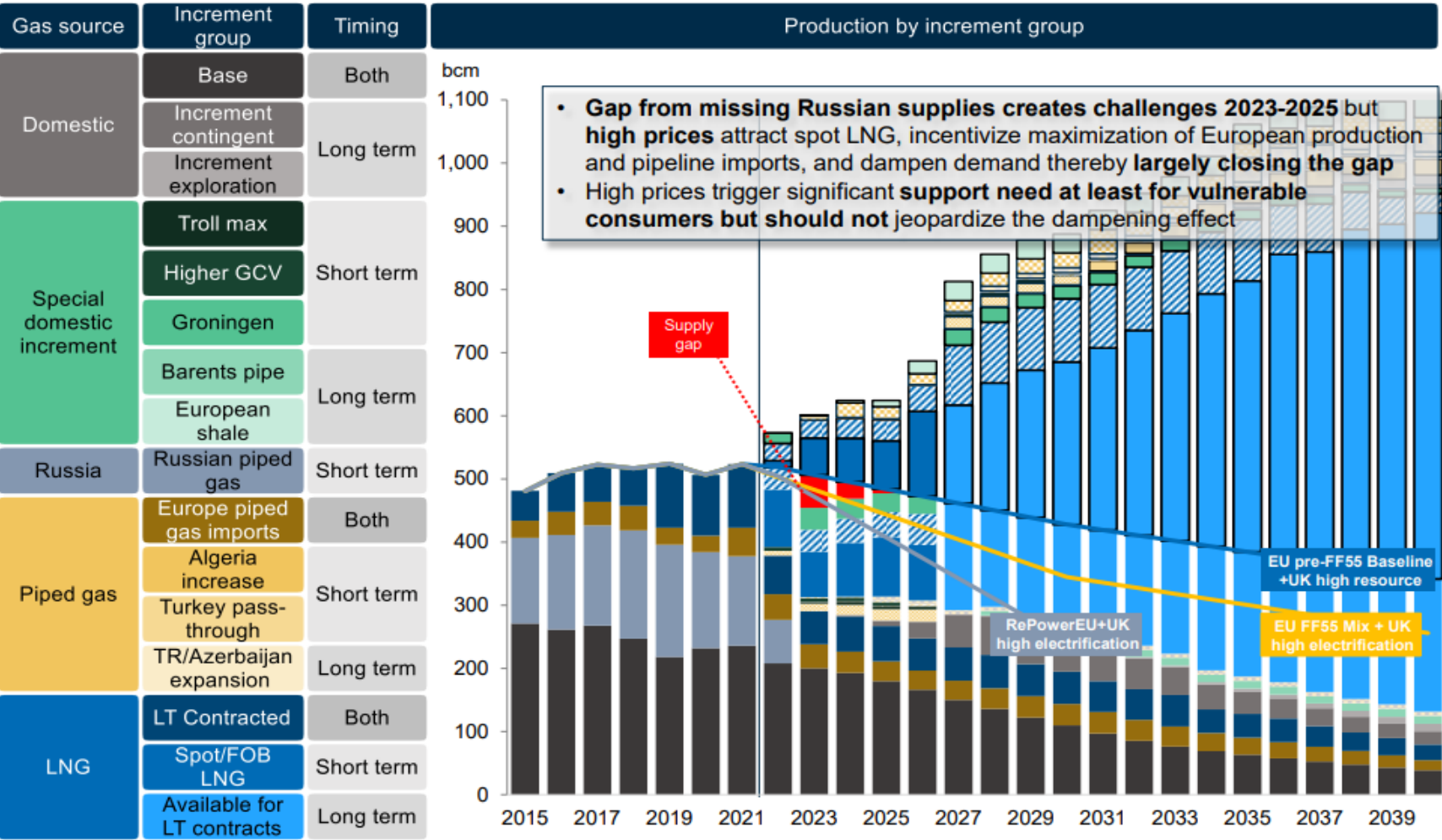
EMISSION REDUCTION IS
HAPPENING



DOMESTIC
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UK domestic production and LNG imports are a key part of the rebalancing of the European gas market away from Russian supplies



Source: Rystad Energy research and analysis, Rystad Energy GasMarketCube, European Commission, UK Department for Business, Energy & Industrial Strategy

“Immediate shortfalls in fossil fuel production from Russia will need to be replaced by production elsewhere – even in a world working towards net zero emissions by 2050”

IEA World Energy Outlook 2022

Priorities for the UK Energy Sector

The Global and (particularly) European Energy Supply Crisis

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Redesigning markets to reflect wider range of energy sources and business models

The North Sea Transition Deal – leveraging our offshore expertise into a wide range of new energy sectors

The Deal will require an internationally competitive and level playing field as part of a broader energy framework

Supply decarbonisation

cutting upstream Oil and Gas industry emissions through an ambitious production emissions reduction programme



Carbon Capture & Storage

enabling large parts of UK industry and society to eliminate emissions



Hydrogen

providing a realistic alternative for heating, heavy industry, and transport



Infrastructure delivery will be made reality through capability-related commitments that underpin the growth of the UK economy

Supply chain transformation

developing expertise that underpins energy-sector wide export growth from the UK, creating a globally competitive energy supply chain of international repute

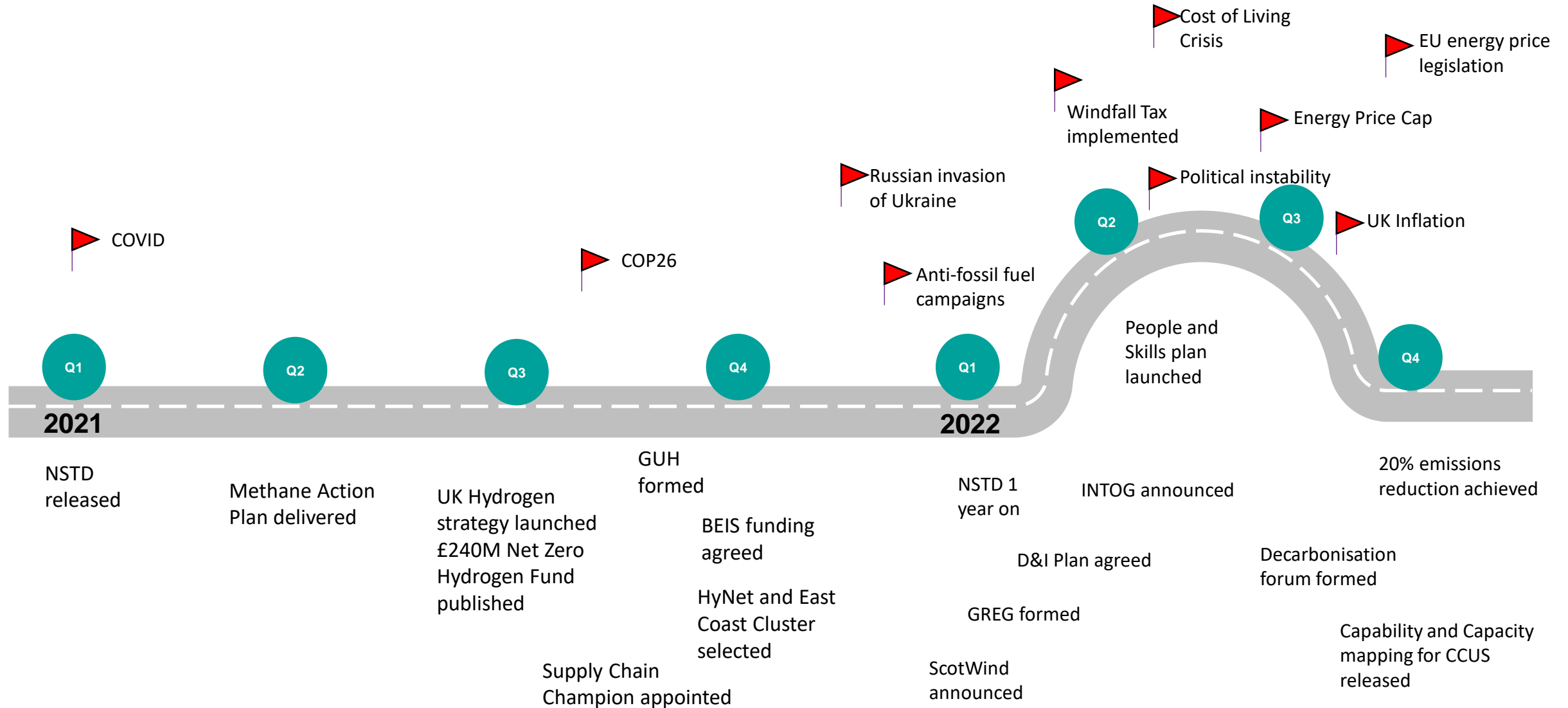


People & Skills

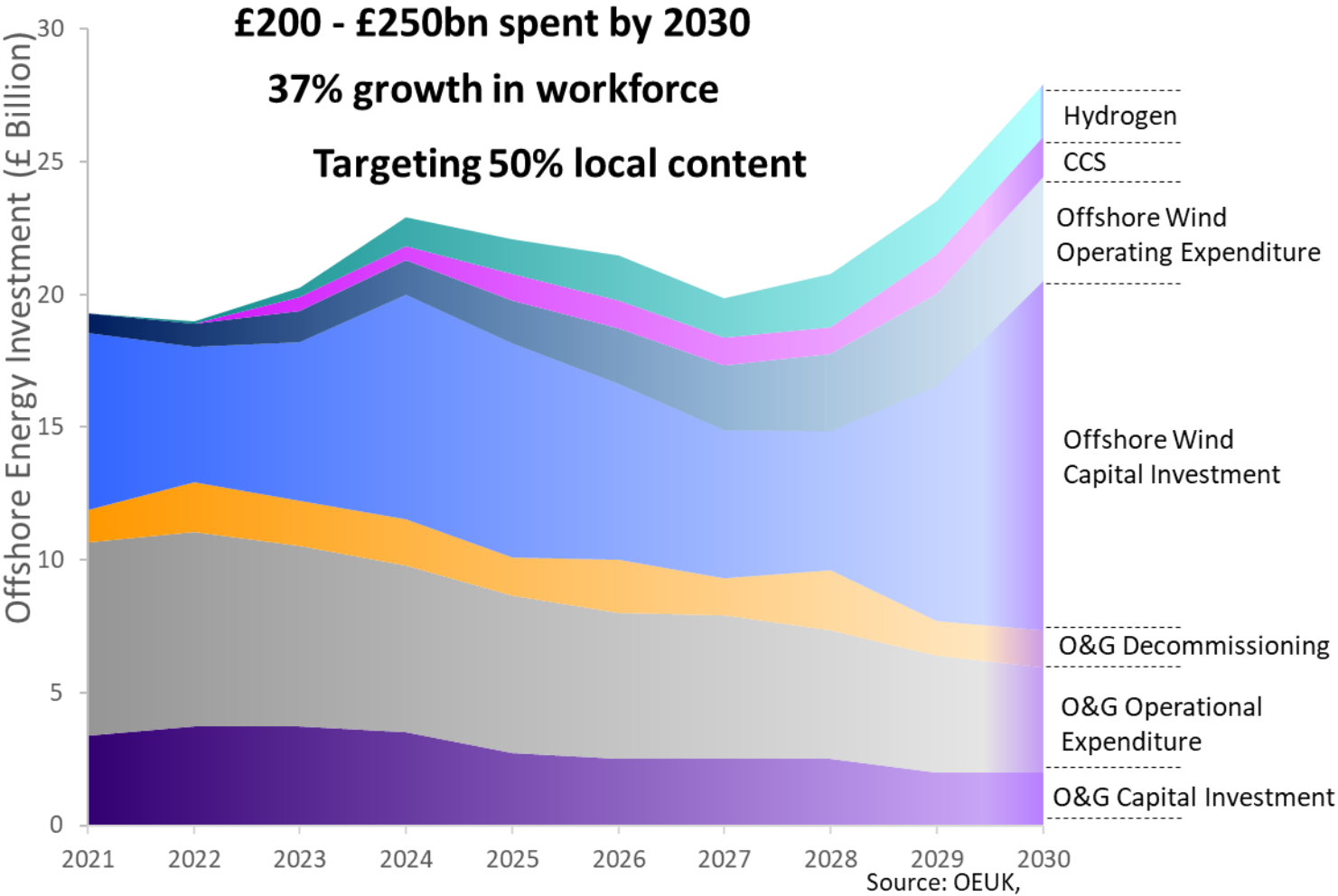
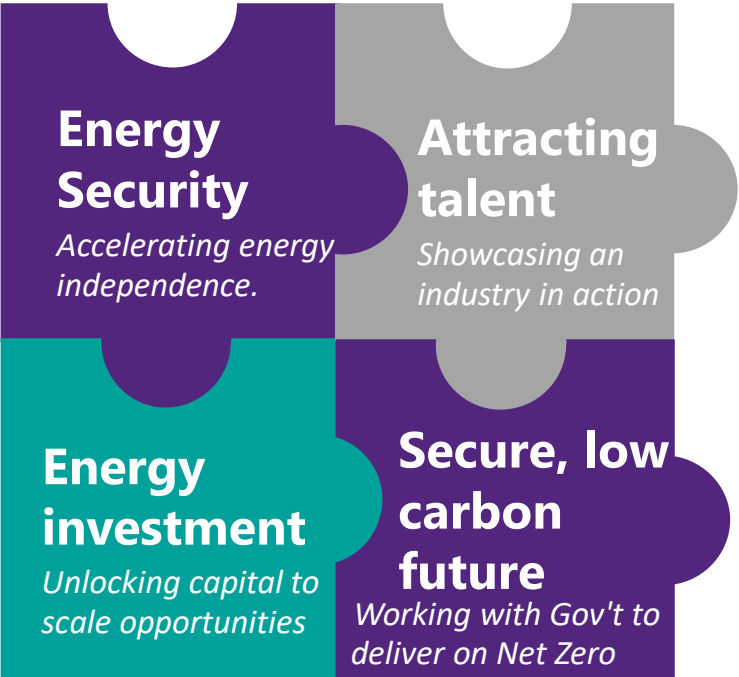
securing, stimulating, and creating tens of thousands of high-quality jobs in industrial heartlands



The NSTD is operating in a different environment compared to where it started



The investment challenge is now wider than the areas covered by NSTD and the challenges are greater



Priorities for the UK Energy Sector

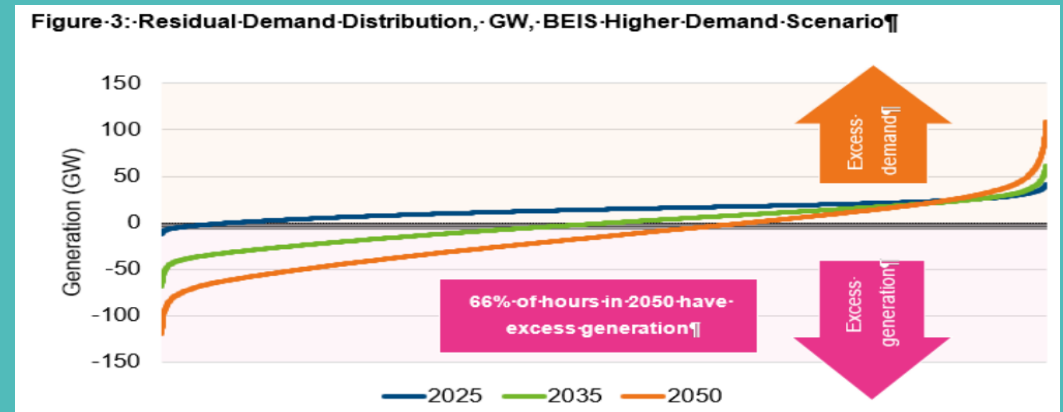
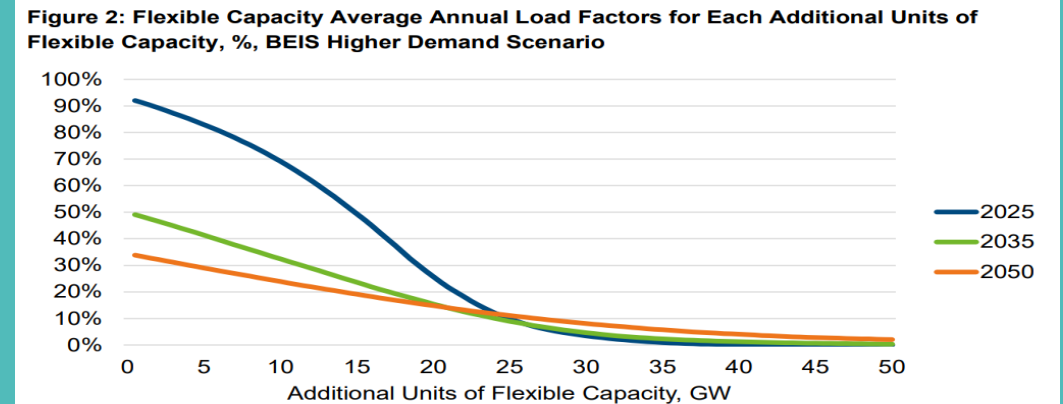
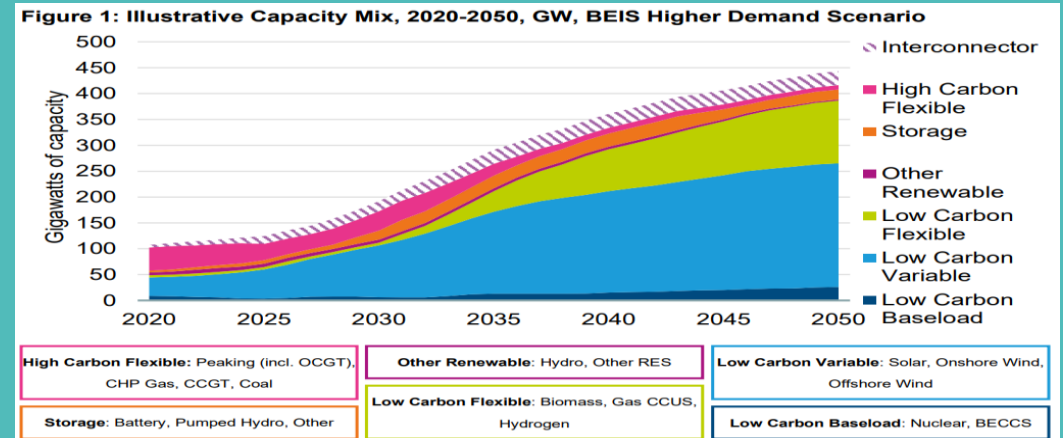
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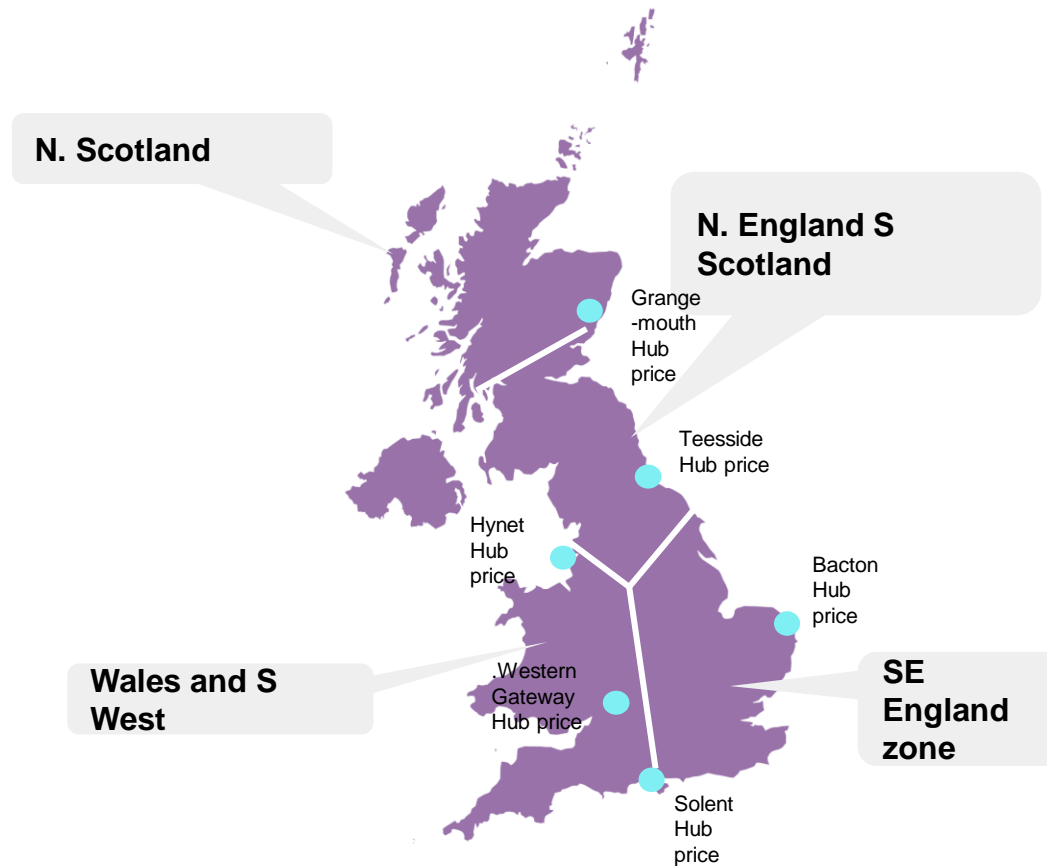
REMA problem statement

- Electricity market will grow in importance
- Renewables currently treated as an add-on, but need to move to centre stage
- Cannibalisation of market and increasing instances of zero/negative prices
- Low margins in supply chain: race to bottom
- Location of best renewable resources -> congestion and inefficient locational \ dispatch decisions
- Need to redesign support for reliability around growing share of decarbonised assets
- Important role of Hydrogen in taking over from gas as the glue in the system
- More distributed solutions as well: batteries and demand response
- Don't kill the patient.... maintain reliable supplies during the transition



Potential REMA outcomes will significantly change how consumers pay for energy and how investors are rewarded

- REMA plus Hydrogen could result in a very different market design for the UK
- REMA is dependent on moving back to competitively determined wholesale and retail prices
- Major change to trading model – significant changes to existing platforms and systems
- Complete change in the way consumers pay for energy and energy services



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