

Sir Keir Starmer's government has made a number of bold statements around the UK energy industry in recent weeks, but delivering on these will require policymakers to look across the full spectrum of energy solutions, and quickly.

This issue of Xtra Energy does just that, with Xodus' leading voices sharing insights on hydrogen, CCS and offshore wind, and what GB Energy could mean for each of these areas. Our attention, however, continues to be on changes to the Energy Profits Levy (EPL).

## LOOKING OUT ON THE UK'S ENERGY MIX

**If the new government needed a wake-up call to the impact of its North Sea oil and gas policy, then the UK offshore energy supply chain recently delivered one.**

At the end of last month, it was revealed that more than 40 organisations, including Xodus, had put their names to an open letter warning that the increase to the Energy Profits Levy (EPL), the extension to 2030 and, crucially, the removal of the investment allowance, risks thousands of jobs in the sector. Nobody is more aware than the energy industry of the pressing need to decarbonise, but this cannot and will not happen overnight. It must be a managed transition, and for that we will need oil and gas for decades to come.

At the same time, we must retain and grow the offshore energy supply chain on which our net zero ambitions depend. Without a steady pipeline of work to keep them engaged, the UK seriously risks losing these companies and the unparalleled skills contained within them. Government has made the right noises about engaging with the energy sector, not least through GB Energy, but what we really need is for ministers to listen, to review these changes to the EPL, and to create an investment environment under which the supply chain can thrive, rather than simply survive ■



## OFFSHORE WIND

After an uncertain year for the UK's offshore wind industry, the results of recently announced Auction Round 6 (AR6) of the Contracts for Difference (CfD) scheme should be a real shot in the arm. It had been hoped that an increase to the overall budget of 50% and an additional £300 million for fixed-bottom offshore wind alone would be a step in the right direction, and so it transpired.

A total of ten offshore wind projects, nine fixed-bottom and one floating, representing approximately 5.3GW of installed capacity secured a CfD, with strike prices ranging from £54.23/MWh to £139.93/MWh. It's promising news, but we remain cautious going forward given the wider budget pressures the Labour government is required to address in the coming years.

Moreover, we are still some way off hitting the sector's target of having 50GW of installed capacity by 2030. The dial has moved forward but ensuring further capacity secures critical funding to move ahead is thus crucial. Further efforts on reducing consenting timelines, ensuring grid readiness, and developing a robust supply chain will all influence the speed at which offshore wind is realised in UK waters. While GB Energy's exact role within this space is yet to be seen, initial focus areas on building supply chains and supporting project investment further amplify the forward moving momentum.

Not all projects can be subsidy supported, so there will be unavoidable knock-on effects. Unsuccessful projects may find alternative routes to market, or postpone until next year's auction, and the budget will continue to be a topic of discussion. Labour will inevitably be under pressure to ensure that next year's budget shows equal commitment to getting as many GW over the line as possible. Although it is still early days, Labour's commitments of considering increasing the windfall tax and halting new North Sea exploration, whilst promoting energy transition discussions, indicates early reasons to remain optimistic on future budget support levels.

Enabling projects and associated supply chain work sends a clear signal of intent, bringing some much-needed confidence to the offshore wind sector. We are dealing with a delicate balancing act between supporting an industry with significant supply chain and job opportunities, whilst managing concerns over costs for consumers and wider government budget pressures.

Continued sustainable financial support and regulatory decisiveness to remove development barriers such as grid connection and consenting will be required for the UK to achieve a successful energy transition ■





# CARBON CAPTURE & STORAGE

Carbon Capture and Storage (CCS) has had a chequered past, with a number of false starts within the UK and Europe over the last two decades. However, we are beginning to see momentum with a number of key projects either nearing completion (Northern Lights in Norway) or achieving final investment decision (Porthos in Netherlands).

The UK looks set to be next. After a number of delays, Track 1 of the UK's cluster sequencing process – the Northern Endurance project and Hynet – aim to take FID in September 2024. The UK Government, both Conservative and now Labour, have signalled their support for CCS as a key enabler to achieve net zero targets and have committed a funding envelope of up to £20 billion over the next 15 years. Whilst this is a positive signal to the market, clarity on support for the Track 2 projects – Acorn and Viking – is less clear.

Westminster has committed to having 20-30 MTPA of CCS projects operational by 2030,

yet the National Audit Office has indicated that the current Track 1 projects are likely to deliver a combined 8.5 MTPA, compared to an original target of 15 MTPA. It is unlikely that the Government will be able to meet these targets without the Track 2 projects and that will require support. The National Audit Office highlights a number of key risks associated with first of a kind CCS projects but view it is a risk worth taking – Xodus agrees. CCS can be a key pillar to support the decarbonisation of hard to abate sectors, whilst also providing opportunities to the supply chain to transition from a declining oil and gas sector within the UK.

The next 24 months will be pivotal for CCS. We will see the first major project become operational in the North Sea and key projects reach FID in the UK and Europe. Governments will need to support these first movers, but there is a bigger opportunity to create a cross-border, single CO<sub>2</sub> market that can help decarbonise not only the UK, but also Europe, reducing costs for all those involved ■

# HYDROGEN

Despite being in its infancy, the Labour government is already faced with critical hydrogen policy decisions that will shape the UK's energy pathway and decide the country's position as a leader. The Labour Party manifesto included a commitment of £500 million to support the manufacturing of green hydrogen from the National Wealth Fund, and hydrogen is mentioned in the remit of GB Energy. But to date we haven't had any hints as to any policy change.

In December 2023 we saw the completion of the first hydrogen allocation round (HAR1) for green hydrogen production. That was expected to lead quickly to those projects taking final investment decision (FID) in order to achieve first production in 2025. Nine months later and we are still yet to see any of those successful projects take FID. Applications are now being shortlisted for Hydrogen Allocation Round 2 (HAR2), which offered seven times the capacity of HAR1 across electrolytic, waste/biomass gasification and solid carbon producing technologies.

Hydrogen production, storage and transportation at scale will be an essential requirement to support a decarbonised power sector by 2035 (a target set by the previous administration, but with all indications showing that Labour will retain this), by providing the long duration energy storage needed to deliver reliability of supply. Multiple sources of analysis, including by CCC, have shown

that the build rate of hydrogen production is not on track to allow this target to be met. Coupled with the Government's policies on oil and gas development, this could lead to a requirement to import higher levels of gas than current planned for in the future.

The proposed timeline for the hydrogen production business model (from DESNZ) shows a 'deployment trajectory review' in 2025. Government must assess the success of the scheme and make decisions on future financial support, all while minimising uncertainty around trajectory, structure or timing.

Delays in clear policy direction will lead to market uncertainty, deterring investment and slowing down technological innovation, and stunting the UK's efforts to create a robust hydrogen industry underpinned by a first class domestic supply chain capable of exporting skills to the world.

The new government has a lot on its plate, but a successful, world-leading UK hydrogen industry now hangs on decisions made in the next year ■

