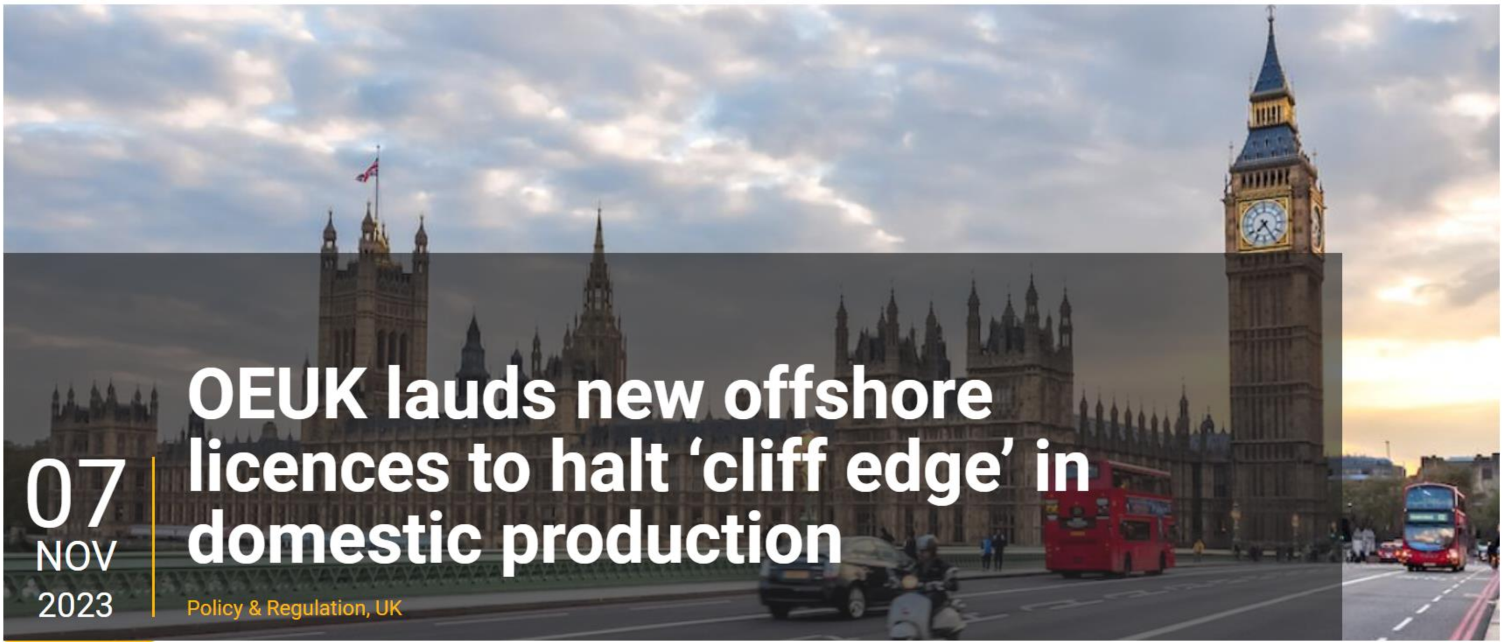
Gas Strategies



The industry body representing the UK has welcomed the government’s plan to bolster new oil and gas field exploration through “the churn of new licences to ensure no cliff edge in domestic production”. Data shows 20 fields in the UK North Sea are set for closure this year, while only two will start producing.

The latest measure, trailed days before the announcement in the King’s speech, would require the North Sea Transition Authority (NSTA) to tender applications annually for new production licences.

Lauding the plan, Offshore Energies UK chief executive David Whitehouse said the trade body had “warned that without fresh investment the UK will be reliant on oil and gas imports for 80% of its needs by 2030.”

In the UK, licencing is used to manage the development of oil and gas, wind and most recently, carbon capture projects.
Set out in the Offshore Petroleum Licensing Bill, the measure sits among broader plans to transition to net zero by 2050 “in a pragmatic, proportionate and realistic way”, according to the government, reducing the UK’s dependence on higher-emission imports while protecting some 200,000 jobs in the local industry.

Data from NSTA shows the UK replaced 3% of production with new reserves in 2022, meaning that only one new barrel was invested in, for every 33 existing barrels produced today. OEUK said that around three oil and gas wells are closed, for each one drilled.

Noting the UK's “homegrown energy production”, OEUK’s Whitehouse said the UK “mustn’t just become a good place to do energy business, it must become irresistible”.

Currently, there are around 284 active oil and gas fields in the North Sea and by 2030 around 180 of those will have ceased production due to natural decline, OEUK said.

The industry needs the churn of new licences to ensure no cliff edge in domestic production. OEUK has warned that without fresh investment the UK will be reliant on oil and gas imports for 80% of its needs by 2030.

"Our sector needs new licences to manage the decline of oil and gas production in the North Sea. A predictable licencing process with transparent checks will support the highly skilled people working in the sector, while ensuring the granting of new licences is compatible with energy security and net zero," Whitehouse added.

Two tests

The proposed annual licence scheme is set to yield around GBP 50bn (USD 61.50) in tax receipts for the country's coffers – according to documents published by the government alongside the King's speech.

However, OEUK flagged two tests that the UK must meet first in order to proceed with the scheme. In the first instance, the UK must be forecasted to import more oil and gas than it produces. To meet the second test, carbon emissions resulting from local production must be lower than the equivalent emissions from imported LNG.

Each licence granted would not represent a new oil field, OEUK points out.
Companies require licences set up in so-called 'blocks' which take into account a range of activity, across carefully mapped sections of the seabed in UK waters. Among these are seismic and initial exploratory work and production, that could be located near existing infrastructure in previously known fields or in new fields.

Caution

Some however are cautious, following the government's September announcement to push back some net zero timeframes affecting the transition to electric vehicles, along with the phasing out of fossil fuel boilers for off-gas-grid homes.
Akap Energy director Anish Kapadia, highlighted the government's recent U-turns, though he noted the annual licensing round is positive.

"The constantly changing government policies on energy and fiscal terms means that it's very difficult for companies to invest in the UK," he said.

"Furthermore, with the prospect of a change in government and further industry unfriendly policies means that this move is unlikely to attract significant new capital into the UK. There is too much short termism without a coherent long-term energy strategy for the UK."
While climate campaigners hit out against the move, the UK government noted its dependence on fossil fuels is similar to other advanced economies: Japan gets 85% of its energy from fossil fuels, the United States 81% and Germany 76%, compared to the UK deriving about 75% of its energy from fossil fuel sources.

Trade association Energy UK, whose members include a range of energy suppliers and listed energy firms in the UK, said the UK must continue to prioritise reduction on the dependence on gas.

“The volatility of global gas markets has driven up bills, which will remain a struggle for millions of customers this winter, and it’s only by investing in clean technology, energy efficiency, and the infrastructure of a modern energy system that we can make a real and permanent difference to cutting the costs of energy for people and businesses and bolstering our energy security.”

In late October, the NSTA announced that it has awarded 27 exploration licences in offshore areas that have been prioritised because they have the potential to go into production more quickly than others. Shell, TotalEnergies, Equinor and Eni were among the 14 companies offered licences in what is the first batch of the UK’s 33rd licensing round.

In the first 8 months of 2023, gross natural gas production in the UK was about 23.2 Bcm, according to government data. That compared with 24.8 Bcm in the same period last year. - PS *Photo credit: Shutterstock/Mistervlad*

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