

Consultation: OFGEM's Forward Work Programme – 2025/26

Offshore Energies UK is the leading trade body for the UK's integrated offshore energy industry. Our membership includes over 400 organisations with an interest in offshore oil, gas, carbon capture and storage (CCS), hydrogen, and wind. From operators to the supply chain and across the lifecycle from production to decommissioning, they safely provide cleaner fuel, power, and products to the UK. Working with our members, we are a driving force supporting the UK in ensuring the security of energy supply while helping to meet its net zero commitments.

OEUK and our members are committed to working with the UK Government, industry, and regulators to help deliver net zero by 2050 in an efficient, affordable and timely manner. As a sector, we are equally committed to producing the cleaner oil and gas that the UK will continue to need in the decades to 2050 and beyond – with lower emissions than imported options. Achieving this will bring huge economic and environmental benefits across the UK.

The UK's offshore energy sector we represent makes a huge contribution to the UK economy, and it has the potential to:

- Contribute to an energy transition which leaves no individual, community, or sector behind.
- Secure over 200,000 high-value jobs in the UK whilst growing the skilled and diverse workforce of the future.
- Deliver £200 billion of private investment over the next decade, spurring economic growth and fostering UK technology and innovation across the energy mix.
- Meet the UK's net zero commitment by 2050 or sooner, decarbonising offshore energy production to power homes and businesses across the breadth of the country.

The offshore energy industry is a fundamental pillar of the UK economy, supporting hundreds of thousands of jobs and contributing billions of pounds to the exchequer annually while powering homes and businesses across the breadth of the country. Our sector has the potential to spend almost £200 billion over this decade in the energy sector and continue to support hundreds of thousands of jobs across the UK. The majority of this could be spent in offshore wind, CCS, and hydrogen in the right investment environment. Companies investing in and supporting nascent opportunities like floating offshore wind and CCS will require cash flow from a stable and predictable oil and gas business to fund these opportunities.

OEUK is pleased to respond to OFGEM's Strategic Priorities consultation as it offers an opportunity to ensure that the regulatory environment supports a homegrown energy transition, leveraging existing skills and infrastructure to build a secure and sustainable future. Our members seek a stable and efficient energy market that benefits consumers, while also providing the necessary conditions for businesses to invest in low-carbon technologies and infrastructure.

Strategic Priority 1: Shaping a retail market that works for consumers

The offshore energy sector is vital to the UK's economic and environmental prosperity, providing secure and reliable energy while supporting jobs and the economy. Considering Ofgem's Strategic Priority 1, "Shaping a retail market that works for consumers," the work of the offshore energy industry is crucial to delivering a homegrown energy transition that benefits consumers. This can be achieved by maximising energy resources, including domestic oil and gas production.

Ofgem's focus on regulating pricing in the domestic market, particularly the operation of the Default Tariff Price Cap, is crucial for protecting consumers in a rapidly changing market. The offshore energy sector can play a significant role in achieving these objectives by providing secure and reliable energy supplies, contributing to price stability, and reducing reliance on imports.

OEUK is supportive of Ofgem's commitment to reducing household debt and ensuring affordability for consumers. A homegrown energy transition can contribute to this goal by creating high-value jobs and supporting economic growth across the UK. A thriving offshore energy sector can generate employment opportunities, boost regional economies, and ultimately enhance consumers' finances.

Maximising domestic energy production, including gas, is essential for protecting consumers and reducing reliance on imports. The UK's offshore energy sector is well-positioned to achieve this, with a significant potential for oil and gas production. Continued investment in domestic production can ensure stable energy supplies, contribute to price stability, and reduce the UK's dependence on imports, thus benefiting consumers directly.

Furthermore, domestic gas production has a lower carbon footprint than imported LNG, making it a more sustainable choice. Prioritising domestic gas production aligns with Ofgem's aim of promoting a sustainable energy market that works for consumers in the long term.

Plans for a clean power system need to recognise that gas-fired power generation, particularly from combined cycle gas turbine (CCGT) plants, is vital for ensuring a reliable and secure electricity supply as the UK transitions to a predominantly renewable energy system. These plants provide essential flexibility, being able to quickly respond to demand fluctuations and balance the intermittent nature of renewables. While the UK continues to rely on oil and gas, domestic production should be prioritised. However, operating the CCGT fleet for only 5% of the time to meet peak demand, as proposed by the Clean Power Action Plan, is likely to present operational and economic challenges. To ensure the economic viability of CCGTs at such low utilisation levels, significant support, such as through the Capacity Market, may be required.

Ofgem's emphasis on improving customer service and trust in the retail energy sector is essential for a successful energy transition. The UK's transition to net zero emissions presents a significant opportunity to restructure the economy, fostering new industrial capabilities and bolstering existing strengths. This transition requires substantial investment, estimated at over £1.4 trillion, with implications for various sectors and regions nationwide. The offshore energy

sector is poised to play a pivotal role in this transformation by developing projects aimed at delivering lower carbon energy supplies and supporting the decarbonisation efforts of other sectors. Will be crucial to create new and safeguard existing industrial activities across the country.

A stable and predictable tax regime is essential to attract and retain investments in the UK. Policy certainty is crucial for businesses to make long-term investment decisions, particularly in capital-intensive projects. A competitive fiscal environment, coupled with a fair balance between risk and reward, will encourage companies to invest in domestic production, ultimately benefiting consumers through secure energy supplies and price stability.

Streamlining regulatory consenting and project approval processes is essential for expediting the deployment of new energy infrastructure. Delays in project approvals can hinder the energy transition and lead to increased costs, which could be passed on to consumers. A more efficient and predictable regulatory framework will attract investment, accelerate project development, and support the timely delivery of cleaner energy solutions.

Investing in people and skills is key to ensuring a successful energy transition. The offshore energy sector is committed to developing a skilled and diverse workforce capable of supporting the growth of low-carbon energy production. By providing training and reskilling opportunities, the industry can ensure a smooth transition for workers from traditional energy sectors to new, sustainable industries. This will contribute to the creation of high-value jobs and boost the UK's economy, ultimately benefiting consumers.

The offshore energy sector's geographic distribution and high economic productivity position it favourably to support the equitable distribution of economic benefits across the UK. This characteristic makes it well-suited to contribute to a more inclusive energy transition that benefits communities nationwide. However, to fully realise this potential, the sector requires a supportive policy environment that fosters investment and enables it to effectively contribute to the UK's economic growth while providing secure energy supplies and reducing emissions.

A homegrown energy transition that maximises domestic energy resources, including gas, will not only protect consumers but also contribute to a more secure, resilient, and sustainable energy system for generations to come.

Strategic Priority 2: Enabling infrastructure for net zero at pace

OEUK recognises the critical role of Ofgem's Strategic Priority 2, which focuses on enabling infrastructure for net zero at pace, in achieving a successful energy transition. Within this priority, the Strategic Spatial Energy Plan (SSEP) is a crucial element that will shape the future of the UK's energy infrastructure. This emphasises the need for a coordinated, efficient, and forward-thinking approach to infrastructure development to meet the UK's net-zero targets and to ensure a stable and secure energy supply.

A key aspect of the SSEP that OEUK supports is its aim to create a holistic, nationwide strategy for both electricity and hydrogen infrastructure. This integrated approach is vital for identifying the most suitable locations for these resources and optimising the planning and development of

the necessary infrastructure. We believe that the plan should not consider the electricity market in isolation but should rather take into account the interplay between various energy vectors and markets. The SSEP is expected to act as a blueprint for future energy infrastructure projects, designed to accelerate both the planning and the actual deployment of these critical assets. A streamlined approach that enhances efficiency, building on the existing regulatory frameworks will be crucial for this to succeed.

OFGEM has an important role to play in the governance structure of the SSEP, which includes a committee comprising representatives from the National Energy System Operator (NESO), the UK and devolved governments, and Department for Energy Security and Net Zero. We strongly believe that the plan should include all types of gas, such as methane, CO₂, and hydrogen, due to gas's crucial role in balancing the intermittency of renewable energy generation. Furthermore, the SSEP should prioritise minimizing the footprint of the energy system by promoting the co-location of infrastructure where feasible and adapting to the shift towards more delocalised energy generation.

Public acceptance is crucial for the successful implementation of the SSEP, and we support involving local authorities and communities to foster a sense of control over their local energy transition. While the first version of the SSEP is not expected until 2026, it will inform the development of the Centralised Strategic Network Plan (CSNP), and it is necessary to manage expectations about the ambitious 2030 goals. The SSEP should be closely aligned with the government's Clean Power 2030 (CP30) objectives. In addition, the UK government's industrial strategy should be considered in the SSEP process to bolster domestic capabilities and prevent further deindustrialisation. Economic factors should be central to the plan, encompassing the economic benefits and externalities, as well as broader system impacts of importing and exporting electricity, gas, CO₂, and hydrogen. The plan should remain adaptable to evolving technologies. Finally, the interaction between the SSEP and other relevant plans and policies should also be taken into consideration.

The existing consenting processes are considered too complex and resource-intensive and may delay project delivery, highlighting the need for streamlined processes based on the current regulatory framework. The spatial evaluation approach should be transparent and measured. We have requested to NESO OEUK's inclusion in the SSEP working groups, given the broad representation of our membership across the energy sector.

Within Ofgem's Strategic Priority 2, Ofgem has an important role in facilitating the development of carbon capture, utilization, and storage (CCUS) infrastructure. Ofgem's role as the economic regulator for CCUS transportation and storage (T&S) networks is essential to delivering the early infrastructure necessary to kickstart the CCUS sector in the UK. A robust regulatory framework and efficient processes are vital to unlock the potential of CCUS and achieve the UK's net zero targets.

CCUS is a critical technology for achieving net zero emissions. The UK's Climate Change Committee has stated that CCUS is a necessity, not an option, and without it, reaching net zero is impossible. OEUK and its members are at the forefront of the development of the sector, which is critical for net zero:

- CCUS is essential for decarbonising hard-to-abate industries, such as cement, and is critical for achieving the government's clean power targets by 2030.

- CCUS enables the production of low-carbon hydrogen (“blue” hydrogen), which is vital for industrial fuel switching, power generation, and transport. The UK has a target of 10 GW of low-carbon hydrogen capacity by 2030, with at least 4 GW from CCUS-enabled projects.
- CCUS is necessary for scaling up negative emissions technologies, such as bioenergy with carbon capture and storage (BECCS) and direct air capture (DAC).
- CCUS can provide low-carbon dispatchable power, supporting the intermittency of renewables and enhancing energy security. Power CCUS will be key to the government's clean power 2030 target, utilizing existing gas-fired power plants by decarbonizing them through carbon capture technologies.
- The CCUS sector has the potential to create 50,000 jobs and protect a further 100,000 in industrial regions, contributing billions to the economy by 2030 and being worth £100 billion to the supply chain by 2050.

The UK has the potential to become a global leader in CCUS, due to several advantages:

- The UK has the largest CO₂ offshore storage potential in Europe, estimated at up to 78 billion tonnes in depleted oil and gas reservoirs and saline aquifers.
- The UK's oil and gas heritage provides a workforce with highly transferable skills to CCUS. The existing supply chain can deliver 84% of the capital expenditure required for CCUS projects.
- The UK can repurpose existing oil and gas infrastructure, such as pipelines and wells, for CCUS, saving time and costs.
- Over half of the UK's industrial emissions are concentrated in six clusters, facilitating the deployment of shared CCUS infrastructure.

While the UK has adopted a Regulated Asset Base (RAB) approach for early CCUS T&S networks, OEUK believes that there is a need to move away from economic regulation as soon as possible. Our members are concerned that the current cluster sequencing process has a limited route to market and that many projects outside the Track 1 and 2 clusters are ready to invest but have no means of accessing CCUS policy frameworks, including business models. We believe that there is a need to develop a more competitive UK CO₂ storage market to increase optionality and reduce reliance on government support. The economic model should support projects beyond the track process by implementing clearer, simpler funding mechanisms and moving away from the current model that is insufficient for the sector's long-term development. In addition, the CCUS sector already has an overly complex regulatory landscape with multiple regulators involved, unclear boundaries, and linkages between regulatory processes.

OEUK looks forward to continuing to work with Ofgem as it leads the development of economic frameworks for CCUS networks, which includes setting allowed revenues for network developers, establishing service standards for network users, determining capital and operational expenditures, defining decommissioning fund obligations, overseeing the initial debt financing process, and determining the Weighted Average Cost of Capital (WACC) for licensees.

While Ofgem's economic regulation of CCUS is a necessary step to get the sector started, it is important to work together to identify ways to move towards a merchant-based model with competitive markets. This will incentivise private investment in CCUS infrastructure and create a self-sustaining CCUS market. Policy frameworks should be developed to ensure that CCUS can be deployed at scale, protecting and creating jobs, while also enabling a more secure energy supply and the achievement of the UK's net zero goals.

Strategic Priority 3: Establishing an efficient, fair and flexible energy system

Ofgem has an important role in ensuring the delivery of an efficient, fair, and flexible energy system, which is essential for achieving net zero. The design of the future energy system requires policies to be implemented today, with Ofgem playing a key role in the Review for Electricity Market Arrangements (REMA). It is crucial that network charges align with the deployment of infrastructure necessary to meet Clean Power 2030 targets and broader net-zero objectives by 2050.

The National Energy System Operator (NESO) is central to the delivery of an efficient and flexible energy system, as its role in planning and operating the energy system is critical for carbon reduction, security of supply, and efficiency. A robust regulatory framework for NESO is essential, but it must consider the interactions across the entire energy system rather than focusing solely on electricity generation.

Regarding wholesale market and charging reform under REMA, there are concerns about certain proposals, particularly zonal pricing. This approach, which would differentiate power prices based on local supply and demand, could create uncertainty for producers and potentially deter investment in renewable projects. The risk is that zonal pricing could increase overall system costs as producers protect themselves from uncertain revenue impacts. Instead, a hybrid system combining electric and hydrogen infrastructure, along with increased interconnector capacity, could address congestion and curtailment more effectively, while also reducing system costs by leveraging existing gas systems for hydrogen use.

A key component of Ofgem's Strategic Priority 3 is the cap and floor regime for transmission network charges. This mechanism is supported as it provides much-needed stability for investors, ensuring confidence and driving investments in critical infrastructure leading up to 2030. Stabilising transmission charges is vital for encouraging the long-term investments necessary for the clean energy transition.

Reforms in the retail market are also essential to support flexible demand, which plays a crucial role in achieving Clean Power 2030 targets. These reforms should create better propositions and incentives for consumers to shift their energy use. However, it is important that these changes are implemented with people and communities at the forefront, ensuring that the energy transition benefits all and provides opportunities to everyone. A successful energy system transition should be inclusive, offering support for communities to realize new opportunities while navigating the changes in energy consumption and production.

A central aspect of the transition is the continued role of gas-fired power in ensuring energy security and grid stability, given the intermittent nature of renewable energy sources. Gas will continue to be important in the short to medium term, and it is essential that domestic gas production is prioritized to support this transition. The UK still relies on oil and gas, and the economic viability of gas-fired power stations, particularly at low utilization rates, may require additional support to ensure their continued operation during the transition.

Furthermore, the focus on homegrown energy is critical for maintaining energy security, supporting jobs, and keeping energy prices stable. By investing in domestic production and renewable energy sources such as hydrogen and CCUS, the UK can create a balanced, secure, and sustainable energy system. Policy alignment is crucial to ensure that investment continues in both renewable and low-carbon technologies, as these will be vital in meeting the clean power objectives.

While we support the overarching goals of Ofgem's Strategic Priority 3, mechanisms such as zonal pricing potentially risk undermining future investments. It is essential to de-risk investments in renewable projects, and ensure market reforms protect UK energy security, promote domestic production, and foster a transition that engages all parts of society. Ofgem's role is critical in designing policies that provide investor certainty, and securing the UK's energy needs for the decades to come.