



North Sea
Transition
Authority

Potential introduction of a carbon storage levy: call for evidence

Date of publication 4 December 2023

Closing date 26 January 2024

Contents

General information	3
1. Introduction	5
2. Principles informing a potential carbon levy	7
3. Potential carbon storage levy design approaches	8
4. Timing of potential levy implementation	11
5. Next steps	12
Summary of questions	13
Annex 1: Response coversheet	14

The document can be found on the NSTA's website.

© NSTA Copyright 2023

URN

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the NSTA open user licence.

This document is available in large print, audio and braille on request. Please email: correspondence@nstauthority.co.uk with the version you require.

Enquiries to:
North Sea Transition Authority
Sanctuary Buildings
20 Great Smith Street
London
SW1P 3BT

Email: levycallforevidence@nstauthority.co.uk

Published by the North Sea Transition Authority

General information

Purpose of this call for evidence

This call for evidence forms part of an early evidence-gathering exercise to seek initial information and views regarding the potential principles, design and timing of a possible future levy on UK carbon storage licences. This is to help inform thinking around how the industry could in the long term move towards a 'user pays' model for the services provided by the NSTA, once the UK Carbon Capture and Storage (CCS) industry is on a more established and self-sustaining footing.

Issued: 4 December 2023

Respond by: 26 January 2024

Territorial extent: United Kingdom and United Kingdom Continental Shelf ('**UKCS**')

Responding to this call for evidence

The NSTA invites written views and comments on the questions in this call for evidence to be made by 26 January 2024. Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Please submit your response by email to levycallforevidence@nstauthority.co.uk

The NSTA has produced a coversheet for responses submitted by email or post (see Annex 1) and asks that you complete and include it with your response, which should speed up the processing of responses, and help to maintain confidentiality where appropriate.

Written response to the call for evidence should be sent to:

Carbon Storage Levy Call for Evidence
North Sea Transition Authority
3rd Floor
1 Marischal Square
Broad Street
Aberdeen
AB10 1BL

Email: levycallforevidence@nstauthority.co.uk

Representative groups are asked to give a summary of the persons or organisations they represent when they respond.

Additional copies:

Other versions of the document in Braille, large print or audio can be made available on request. Please contact us using the 'enquiries' details to request alternative versions.

Confidentiality and data protection

The NSTA will aim to publish a summary of the responses to this call for evidence and its response in due course.

The NSTA does not intend to publish individual responses to this call for evidence. However, the NSTA is subject to the requirements of the Freedom of Information Act 2000 so if you think any part of your response should be kept confidential, please place such part(s) in a separate annex to your response and include your reasons why this part of your response should not be published. For example, this may include information such as your personal background and experience. Therefore, if you want your personal details to remain confidential, please provide them in the coversheet so that the NSTA does not have to edit your response.

If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this.

Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to the NSTA to use for its regulatory remit.

Quality assurance

This call for evidence has been carried out in line with [the government's consultation principles](#).

If you have any complaints about the process (as opposed to comments about the issues which are the subject of the call for evidence) please address them to:

NSTA Consultation Coordinator
Sanctuary Buildings
20 Great Smith Street
London
SW1P 2BT

Email:
consultationcoordinator@nstauthority.co.uk

1. Introduction

- 1.1 The North Sea Transition Authority (NSTA)¹ regulates and influences the UK oil and gas, offshore hydrogen transport and storage, and offshore carbon dioxide storage industries. We help drive North Sea energy transition, realising the significant potential of the UK Continental Shelf (UKCS) as a critical energy and carbon abatement resource, and we hold the oil and gas industry to account on halving production greenhouse gas emissions by 2030.
- 1.2 Carbon Capture and Storage (CCS) is vital to the UK reaching its net zero by 2050 target. CCS is an established process which prevents harmful greenhouse gases entering the atmosphere. It involves capturing carbon dioxide emissions from industry and then transporting the gases in pipelines to depleted oil and gas reservoirs and saline aquifers for storage and monitoring.
- 1.3 The UK North Sea boasts substantial storage potential that can be used for this purpose and the NSTA works with government, other regulators and industry to realise this potential.
- 1.4 The NSTA regulates the offshore carbon storage industry by issuing carbon storage licences, and eventually carbon storage permits, to companies who wish to transport and store carbon emissions under the seabed. We steward projects, and evaluate proposals for storage sites to ensure there is no significant risk of leakage before a permit for storage operations is granted.
- 1.5 Our extensive knowledge of the North Sea, and our work with other regulators, helps us ensure that seabed space is used wisely and that important industries such as CCS, oil and gas, and offshore wind can co-exist.
- 1.6 Over the last few years, the amount of work undertaken by the NSTA on carbon storage has increased, with proactive stewardship of 27 existing carbon storage licences currently underway, and preparations in train to be able to assess the first carbon storage permit applications enabling subsurface carbon dioxide injection. The NSTA does charge fees for some aspects of this work – such as processing applications for licences and permits – but such fees can only cover the direct costs of providing those services. Wider costs, including some of those around stewardship activity, guidance and process development, policy and regulatory coordination, are not covered by those fees, but are instead predominantly funded by government.

¹ The North Sea Transition Authority is the business name of the Oil and Gas Authority (OGA). The OGA remains the legal name of the company. NSTA and OGA are used interchangeably in this document.

- 1.7 Government policy, as set out in HM Treasury’s ‘Managing Public Money’ (MPM)², is to charge users for many publicly provided goods and services – referred to here as the ‘user pays’ principle – in order to relieve the general taxpayer of costs properly borne by those who benefit directly from a service.
- 1.8 In principle, the NSTA considers that in the long term, its work on carbon storage should be funded by the industry that it serves, once the industry is on a more self-sustaining footing. At present, however, the UK’s emerging CCS industry is in its early stages, with the policy and regulatory framework still under development, and limited revenue streams for the industry.
- 1.9 The NSTA also recognises that any potential design and timing of introduction of such new funding arrangements would require careful analysis. Therefore, this call for evidence forms part of an early evidence-gathering exercise to seek initial information and views regarding the potential principles, design and timing of a possible future levy on UK carbon storage licences, to help inform early NSTA thinking on this matter.
- 1.10 When the NSTA was created (as the OGA) in 2015, the government consulted³ on its funding, which is primarily through a levy on holders of offshore exploration and production petroleum licences (the “petroleum levy”), with additional fees charged for specific services. The Energy Act 2016⁴ provides that the Secretary of State may introduce regulations to allow the NSTA to charge a levy to recover full costs incurred in exercising its functions as licensing authority, including the costs of associated stewardship of licences.
- 1.11 The original levy consultation acknowledged that future work on carbon storage may need to be funded by a levy on carbon storage licences⁵, and the Energy Act 2016 allows for the introduction of such a levy through regulations.
- 1.12 Therefore, the NSTA is using this call for evidence to seek views and feedback in relation to the:
- general concept of a carbon storage levy;
 - principles informing a potential carbon storage levy;
 - potential carbon storage levy design approaches; and
 - timing of potential levy implementation.

Q1. Do you agree with the general concept of a carbon storage levy in the longer term, in line with the ‘user pays’ principle?

² <https://www.gov.uk/government/publications/managing-public-money>

³ <https://www.gov.uk/government/consultations/funding-the-oil-and-gas-authority-consultation-on-levy-design>

⁴ 2016 c. 20

⁵ Gas storage and onshore petroleum licences are not subject to a levy; this paper does not propose the levy is extended to them.

2. Principles informing a potential carbon levy

- 2.1 Any future potential carbon storage levy should be based on clear principles, as is the case with the petroleum levy.
- 2.2 The petroleum levy is charged annually on all offshore petroleum licences, with different rates for producing and non-producing licences, and lower rates for certain non-producing licences held by micro-enterprises. It is calculated by dividing the number of licences each year by the budget for work covered by the petroleum levy and then allocated between producing and non-producing licences.
- 2.3 The NSTA considers that potential principles informing any future levy on licensees should:
- follow the “user pays” principle, while recognising the complexities in this for a nascent industry reliant – at least for initial projects – on a government support framework;
 - ultimately reflect the actual cost to the NSTA of providing the services to carbon storage licensees;
 - provide certainty on funding, both in terms of amounts and in terms of timings, for licensees and for the NSTA; and
 - replicate, where appropriate, the principles of the well-established petroleum levy, including distinguishing between different categories of licence-holders where appropriate.
- 2.4. The NSTA is seeking views on these potential principles, and any others, that could inform the potential levy.
-
- Q2. Do you have any views on the potential principles that could inform a carbon storage levy?**
-

3. Potential carbon storage levy design approaches

3.1 In considering how a possible future levy for carbon storage licensees could work and bearing in mind the potential principles outlined above, the NSTA has identified a number of broad carbon storage levy design options:

- Single levy rate for all carbon storage licences
- Differing levy rates for different categories of licence holder
- Combined single levy for petroleum licences and carbon storage licences
- Potential carbon storage levy based on acreage or amount of carbon dioxide stored

3.2 Single levy rate for all carbon storage licences

3.2.1 Under this approach, a potential levy rate would be calculated by dividing the annual budget for the NSTA's carbon storage work by the number of carbon storage licences on the relevant date each year, regardless of whether the licence holder also has a storage permit or is injecting carbon dioxide.

3.2.2. While this design reflects the potential principles outlined above, it does not distinguish between licence holders at different stages of their life cycle, for example between those that have started carbon dioxide

injection and those that have not yet reached that stage. The cost of such a levy in the early years of an industry, when there is a relatively smaller number of licence holders, is likely to be close to the cost of petroleum levy producing licences, while the vast majority of carbon storage licence holders will not have an income stream.

3.3. Differing levy rates for different categories of licence holder, such as licence holders storing and not storing carbon dioxide

3.3.1. Under this design approach, a potential levy would seek to differentiate between carbon storage licence holders who, for example, are not yet storing carbon dioxide, and those who are. Different rates could be charged for these types of licences, similar to the design of the petroleum levy, which differentiates between producing and non-producing licences.

3.3.2. Determining the point(s) at which a different rate should apply could be based on whether the licence holder also holds a storage permit, whether the licence (and permit) holder has commenced injection, or some other event or circumstance. The NSTA would be grateful for

views on possible appropriate trigger points for such levy rate differentiation.

- 3.3.3. Such a potential levy should meet the suggested design principles above and appears likely to be able to provide a different treatment for licences with a potential income stream, unlike the single levy rate. It would largely mirror the approach for petroleum licences. Appropriate trigger points would need to be determined.

3.4. Combined single levy for petroleum licences and carbon storage licences

- 3.4.1. Another potential design approach could be to have a combined single levy for petroleum licence and carbon storage licence holders. Under such a combined single levy, there could potentially be different rates based on for example:

- producing petroleum licences and carbon storage licences with storage permits;
- non-producing oil and gas licences and carbon storage licences without storage permits; and
- micro enterprises with non-producing oil and gas licences and carbon storage licences without storage permits.

- 3.4.2. The NSTA is aware that careful consideration would need to be given to the alignment of this

approach with the “user pays” principle. However, this type of combined levy would provide certainty of funding and would reflect the fact that the NSTA provides services to wide range of users.

3.5. Potential carbon storage levy based on acreage or amount of carbon dioxide stored

- 3.5.1. This potential levy design approach could be based on the licensed area in square kilometres of the storage site, or the amount of carbon dioxide stored. There is typically not a linear relationship between the size of the licensed acreage and the carbon dioxide storage potential of the storage site or the amount of carbon stored, and neither of the size of the area nor the amount of carbon dioxide stored would necessarily have a direct relationship to the time spent by the NSTA on the associated licences. This means it is unlikely to be an accurate or fair way to allocate potential levy costs. Together with uncertainty of area or amount stored, this option therefore does not appear to meet desirable design principles.

- 3.6. The NSTA considers the broad design approaches outlined above are the most immediately apparent potential levy designs, but recognises that other approaches and options may be possible. We are therefore seeking views on all these broad approaches and any others that may meet desirable levy principles.

Q3. Do you have any views or evidence supporting or discounting any particular potential levy design approach?

Q4. What categories of carbon storage licence holder could there be for possible inclusion or exclusion from the scope of any potential future carbon storage levy?

Q5. What could be an appropriate basis or trigger points for differentiating between different levy rates in potential designs where there are different levy rates?

Q6. Do you have any other suggested design approaches or options?

4. Timing of potential levy implementation

- 4.1. The NSTA recognises that the UK CCS industry is currently in its infancy, and considers that determining when the industry might be sufficiently mature or established for a potential levy becoming chargeable on it requires careful consideration. Determining the best time for a potential future levy implementation depends on a range of factors, including how well established the overall policy and regulatory framework for CCS in the UK is, and how well established the UK CCS industry can be considered.
- 4.2. The NSTA considers that key considerations or potential trigger points to help determine the best timing of implementing a potential levy include:
- whether and how many licensees have carbon storage permits;
 - whether and how many licensees with carbon storage permits have also commenced carbon dioxide injection; and
 - the total number of carbon storage licences on the UKCS
- 4.3. The NSTA would welcome views on the potential trigger points or other considerations for implementation, and welcomes input and suggestions with supporting evidence.

Q7. Do you have any views or evidence on the best timing for implementing a carbon storage levy?

5. Next steps

- 5.1. This call for evidence closes on 26 January 2024. The NSTA will consider the feedback received and aims to publish a response to this call for evidence.

Summary of questions

Q1. Do you agree with the general concept of a carbon storage levy in the longer term, in line with the 'user pays' principle?

Q2. Do you have any views on the potential principles that could inform a carbon storage levy?

Q3. Do you have any views or evidence supporting or discounting any particular potential levy design approach?

Q4. What categories of carbon storage licence holder could there be for possible inclusion or exclusion from the scope of any potential future carbon storage levy?

Q5. What could be an appropriate basis or trigger points for differentiating between different levy rates in potential designs where there are different levy rates?

Q6. Do you have any other suggested design approaches or options?

Q7. Do you have any views or evidence on the best timing for implementing a carbon storage levy?

Annex 1: Response coversheet

 North Sea Transition Authority	CALL FOR EVIDENCE ON A POTENTIAL CARBON DIOXIDE STORAGE LEVY												
To: Carbon Storage Levy Call for Evidence													
<p>YOUR DETAILS</p> Name: Company/Organisation: Position: E-mail address: Address: Representing:													
<p>CONFIDENTIALITY</p> Please tick below if you consider any part of your response is confidential, giving your reasons why: <table data-bbox="183 1086 1066 1310"> <tr> <td>Nothing</td> <td><input type="checkbox"/></td> <td>Name/contact details/position</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Whole response</td> <td><input type="checkbox"/></td> <td>Company/organisation</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Part of the response</td> <td><input type="checkbox"/></td> <td></td> <td></td> </tr> </table> <p>If there is no separate annex, which parts?</p>		Nothing	<input type="checkbox"/>	Name/contact details/position	<input type="checkbox"/>	Whole response	<input type="checkbox"/>	Company/organisation	<input type="checkbox"/>	Part of the response	<input type="checkbox"/>		
Nothing	<input type="checkbox"/>	Name/contact details/position	<input type="checkbox"/>										
Whole response	<input type="checkbox"/>	Company/organisation	<input type="checkbox"/>										
Part of the response	<input type="checkbox"/>												
<p>If you want any part of your response, your name or your organisation to be kept confidential, can the NSTA still publish a reference to the contents of your response including (for any confidential parts) a general summary that does not disclose the specific information or enable you to be identified?</p> <p>YES <input type="checkbox"/> NO <input type="checkbox"/></p>													
<p>DECLARATION</p> <p>I confirm that the correspondence supplied with this coversheet is a formal consultation response that the NSTA can publish, except as indicated above.</p> <p>However, in supplying this response, I understand that the NSTA may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations.</p> <p>If I have sent my response by email, the NSTA can disregard any standard e-mail text about not disclosing email contents and attachments.</p> <p>Name: _____</p> <p>Signed (if hard copy): _____</p>													



North Sea Transition Authority

Copyright © North Sea Transition Authority 2023

The North Sea Transition Authority is the business name for the Oil & Gas Authority, a limited company registered in England and Wales with registered number 09666504 and VAT registered number 249433979. Our registered office is at Sanctuary Buildings, 20 Great Smith Street, London, United Kingdom, SW1P 3BT.

www.nstauthority.co.uk