Department for
Business, Energy
& Industrial Strategy

Designing a climate compatibility checkpoint for future oil and gas licensing in the UK Continental Shelf

Consultation Document

Closing date: 28 February 2022

December 2021

Any enquiries regarding this publication should be sent to us at:
oilandgasconsultations@beis.gov.uk

Contents

General information

Why we are consulting

In March 2021, HMG announced the outcome of a review which looked at the compatibility of continued oil and gas licensing with the UK's climate objectives.

The main outcome of the review was that continued licensing can in principle continue in alignment with UK climate objectives, but that a checkpoint should be introduced to ensure that licensing is only allowed to continue for as long as this remains the case.

This consultation is to gather input on the design of that checkpoint.

Consultation details

Issued: 20 December 2021

Respond by: 28 February 2022

Enquiries to:

Oil and Gas Exploration and Production
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Email: oilandgasconsultations@beis.gov.uk

Consultation reference: Designing a climate compatibility checkpoint for future oil and gas licensing in the UK Continental Shelf

Audiences:

We are seeking views from affected organisations and groups. These are predominantly:

- UK oil and gas industry and the investment community
- Non-Governmental Organisations

Territorial extent:

Exploration and Production of Oil and Gas offshore is a reserved matter. Views are therefore sought from all countries within the UK.

How to respond

Respond online at: beisgovuk.citizenspace.com/energy-development/oil-gas-licensing-checkpoint

or

Email to: oilandgasconsultations@beis.gov.uk

Write to:

Oil and Gas Exploration and Production
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

When responding, please state whether you are responding as an individual or representing the views of an organisation.

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.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Background

Why are we designing a checkpoint?

In September 2020, the Secretary of State for Business, Energy and Industrial Strategy asked officials to conduct a review into the licensing of oil and gas in the UK. The main question of this review was whether the continued award of new licences for oil and gas exploration is consistent with the UK's wider climate objectives. These wider objectives include carbon budgets, our nationally determined contribution (NDC), and achieving net zero emissions by 2050[1].

The review considered a wide range of factors which are influenced by the UK's policy on future licensing. These included:

- Production of oil and gas
- The economy (including jobs, tax revenues and economic contribution)
- Greenhouse gas emissions arising from oil and gas production activity (both domestic and international)
- Investor Sentiment
- International Impact
- Energy Security
- The UK's ability to achieve net zero

The review concluded[2] in March 2021 and found that continued licensing for oil and gas is not inherently incompatible with the UK's climate objectives. However, it was acknowledged that this may not always be the case in future.

To resolve this issue, it was recommended that a "checkpoint" be introduced, to ensure that the compatibility of future licensing with the UK's climate objectives is always evaluated before a licensing round is offered.

How does the licensing process work?

Before an oil and gas operator can explore for, drill for or produce petroleum, offshore on the UK Continental Shelf, they must first obtain a licence[3] from the Oil and Gas Authority (OGA). A

[1] On our pathway to net zero, the UK has interim targets called carbon budgets and Nationally Determined Contributions (NDCs). Carbon budgets restrict the total amount of greenhouse gases that the UK can emit over five-year periods, ensuring continued progress towards our long-term climate target. NDCs are commitments made by Parties to the Paris Agreement. They show how Parties intend to reduce their greenhouse gas emissions to meet the temperature goal of the Paris Agreement.
[2] https://www.gov.uk/government/news/north-sea-deal-to-protect-jobs-in-green-energy-transition
[3] Petroleum Act 1998 (legislation.gov.uk)

licence grants the holder exclusive rights to explore for petroleum in the area covered by the licence. This includes exploratory drilling, but it should be noted that the licences on their own do not convey permission for activities including drilling since these require further consents from the OGA, subject to environmental assessments from OPRED, and assessments from the HSE.

Licences are typically awarded by the OGA following a "licensing round". These rounds, which happen up to once per year, allow prospective licence holders to bid for specific licence areas. Typically, a number of licence areas – selected by the OGA – are on offer for application. The OGA selects a winning bidder for each licence area according to a process described in further detail here and here.

While the licence gives the holder the right to explore in a certain area, it does not give the holder any consent to develop infrastructure or extract oil and gas commercially. This consent must be obtained from the relevant regulators later once the licence holder has produced a field development plan.

In most cases these licences are known as "production licences" and consist of three 'terms'; an initial term, a second term and a final, third term. There is not a hard and fast connection between each term and the activity that takes place within it, but typically the initial term is for exploration, the second term is for development and the third term is for production. However, a licensee that moves fast enough and secures the necessary permissions and consents in time would not be prevented from starting production during the initial or second term.

More recently 'Offshore Innovate' licences have been offered which provide slightly more flexibility around the lengths of the terms. The Innovate Licence replaces several earlier types of Seaward Production Licence; the Traditional, Promote and Frontier types. The Innovate Licence offers greater flexibility in the durations of the Initial and Second Terms (which was the main difference between the older licence types). An applicant for an Innovate licence is able to propose the durations of the Initial and Second Terms, and among the permutations that may be proposed are those that represent those associated with each of the older licence types.[4]

Where in the process would the checkpoint fit in?

The checkpoint would be exercised before the OGA offered a new licensing round (or rounds). This means that the OGA will not launch a new licensing round until the checkpoint has been designed, published and implemented for the first time. Following this, the checkpoint would be valid for one or more future licensing rounds. Whether a single checkpoint should be valid for more than one licensing round will be addressed in this consultation.

[4] For a more detailed explanation of the various types of licences please refer to the OGA's website: https://www.ogauthority.co.uk/licensing-consents/types-of-licence/

What kinds of project will be affected by this checkpoint?

The review conducted in 2020/2021 considered the continued offer of new licensing rounds for offshore oil and gas within the UK Continental Shelf. It did not consider the progression of licences from one term to another. This is because we already have a robust, multi-layered regulatory system in place for licences once they have been awarded. Development projects in areas for which the developer already holds a licence are subject to high levels of regulation, including an environmental impact assessment, as well as a public consultation, and rigorous scrutiny from both OPRED (part of BEIS) and the OGA before consent. The OGA's revised strategy, which came into effect in February 2021, imposes net zero considerations across all aspects of a project's lifecycle, including the consents process alongside the licensee's statutory obligation to maximise economic recovery from the UKCS.

The checkpoint will therefore specifically inform whether **new** licensing rounds should be offered to companies for exploration and production. The checkpoint will not impact the consenting process for proposed developments that come under licences that have already been awarded to licensees. Such proposals are subject to a number of further checks including by the OGA under its revised Strategy, which is effectively a net zero test.

Although the onshore sector is much smaller than the offshore sector, the department is minded to include onshore oil and gas licensing in the outcome of any checkpoint. This means that a future negative checkpoint outcome would also be taken into account in relation to onshore licensing rounds. Onshore oil and gas is a devolved matter, so this would apply only to England.

Proposals

This section outlines initial thoughts from the department on the principles, structure, and content of the checkpoint. We welcome thoughts from stakeholders on any aspect of our proposals but have also asked specific questions to maximise the benefit of responses.

Principles of the Checkpoint

It is proposed that the design of the checkpoint satisfies the following principles:

- **Evidence-based:** the checkpoint must use either reliable data, or credible projections when drawing its conclusions.
- **Transparent:** the checkpoint structure should be clear and objective, and the sources of all data and projections should be publicly available and transparent.
- **Simple:** the checkpoint should be able to be described in a short document, and therefore give confidence to all stakeholders that a clear and methodical process is being followed.

Question 1: Are these the right principles? Are there others that should be included?

Checkpoint Tests

It is proposed that the checkpoint is comprised of a series of "tests" that must be passed in order for the checkpoint outcome to be positive. In this case a positive outcome to the checkpoint would mean that continued licensing is compatible with the UK's wider climate objectives, whereas a negative checkpoint outcome would likely require a pause in licensing, until such time that it could be demonstrated that the checkpoint outcome would once again be positive.

In preparation for this consultation, we have worked internally, as well as engaging with multiple stakeholders. This thinking and engagement has surfaced several considerations that this checkpoint could be designed to take into account.

Based on these considerations, we have developed a list of "potential tests" which could be incorporated into the checkpoint.

This document provides a presentation of these proposed tests, as well as a discussion of each test's pros and cons, and an invitation for stakeholder feedback. Some of these tests are described in more detail than others, according to our understanding of how they could be implemented. Input on all potential tests in response to this consultation document is welcomed.

These **potential tests** are as follows:

- **Potential test 1**: Reductions in operational greenhouse gas emissions from the sector vs. commitments
- **Potential test 2**: Reductions in operational greenhouse gas emissions from the sector benchmarked internationally
- **Potential test 3**: Status of the UK as a net importer or exporter of oil and gas
- **Potential test 4**: Sector progress in supporting Energy Transition technologies
- **Potential test 5**: Consideration of international Scope 3 emissions[5] from UK produced oil and gas and whether these would be expected to fall in line with the fall in emissions required to keep global warming within 1.5°C if further licensing rounds were agreed.
- **Potential test 6**: Consideration of the 'global production gap'. This is defined by the United Nations as the discrepancy between all countries' planned fossil fuel production and global production levels consistent with limiting warming to 1.5°C or 2°C. In COP26 the UK has called on all countries to update their NDCs so that they are in line with holding temperature rise to 1.5°C. For this reason, the discrepancy to 1.5°C is key.

[5] Scope 3 (Other indirect): Emissions that are a consequence of your actions, which occur at sources which you do not own or control and which are not classed as scope 2 emissions. Examples of Scope 3 emissions in this context would be the 'end-use' emissions when hydrocarbons are combusted, or used in other process e.g. production of plastics or medicines.

Question 2: Are there other things that the checkpoint could take into consideration? If yes, please provide proposals for how these could be considered objectively, as well as data sources that could be used to support the inclusion of such a consideration (the more information that is provided here the better). You may wish to read the rest of the document before answering this question.

Potential Tests

Potential test 1: Reductions in operational greenhouse gas emissions from the sector vs. commitments

Rationale:

This test would address the issue of operational greenhouse gas emissions from oil and gas operations, by making the award of new licences to the sector contingent on the sector's delivery of the commitments it has agreed with government to reduce these emissions. The emissions discussed here are those generated during the process of extracting the oil and gas (defined technically as Scope 1 emissions), and any indirect emissions from purchased energy (Scope 2), such as emissions being released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling, but do not include the emissions generated at the point the oil and gas is burned for energy (Scope 3).

Proposed Methodology:

This test would look at both historical data, and emissions projections to establish compatibility based on current performance to date, and on future risks to our agreed objectives. For clarity, this proposed methodology has been divided into two parts:

- Part 1, which looks at historical performance to date
- Part 2, which looks at the projected impact of a new licensing round on emissions and the sector's ability to meet its targets.

Part 1 – Historical performance to date:

This part of the test would compare the sector's progress in reducing these emissions with the commitments set out in the North Sea Transition Deal, which was published by BEIS in March 2021. The Deal set out the joint government and sector's commitment to achieving a 50% reduction in emissions by 2030 when compared with a 2018 baseline (as well as further steppingstone targets of 10% by 2025 and 25% by 2027). In the longer term, it is proposed that the sector's own commitments to achieve 90% emissions reductions by 2040 and 100% reductions by 2050 would be used for this test, although should more ambitious targets be agreed between government and industry, then these would be applied.

This test would be satisfied as long as the sector's progress is in line with these commitments, with a view to 2030. It is proposed that the OGA's annual emissions monitoring report is used to determine this. There would need to be a grace margin afforded to the sector though before it is considered to have fallen behind its commitments and further licensing rounds are paused. This grace margin would account for errors due to measurement in emissions reporting, the uncertainties around forecasting the future and circumstances out of the industry's control e.g. progress on removing regulatory barriers to electrification of platforms.

Part 2 – Impact of a new round:

This part of the test would assess the impact of granting the next licensing round(s) on emissions targets in future, in line with the North Sea Transition Deal.

Background on the North Sea Transition Deal and our climate objectives:

While the sector has made ambitious commitments through the North Sea Transition Deal, the independent Climate Change Committee (CCC) has suggested the sector should go even further than this and reduce emissions by 68% by 2030.[6].

The North Sea Transition Deal targets should be viewed in the context of the Government's wider climate commitments.

The Government has legislated for a reduction in overall UK emissions by 2035 of around 78%. The Net Zero Strategy outlines the pathways for different sectors to achieve this and treats the NSTD as a key component of our emissions reductions targets, committing to build on existing commitments in the deal.

Any commitments used in this test must be compatible with CB6, and with future Carbon Budgets, as well as the UK's Nationally Determined Contribution (NDC).

As set out in the Net Zero Strategy we will continue to explore further areas for decarbonisation of the oil and gas sector such as electrification, and minimising venting and flaring. If in the future, stronger targets are agreed for the North Sea Transition Deal, these would then be used for this test.

Table 1: Pros and Cons identified of Proposed Test 1

Pros	Cons
Would ensure that there cannot be a positive checkpoint outcome unless the sector consistently delivers against ambitious emissions reductions commitments. Provides a motivation for the sector to make good on its commitments.	The design of the checkpoint would need to take into account the wider regulatory environment in relation to encouraging ambitious commitments to reduce emissions swiftly. Some emissions targets may require government support to be achievable. This approach could penalise individual companies which have invested in reducing emissions, if less progressive companies cause the test to fail – although this risk is

[6] https://www.theccc.org.uk/publication/2021-progress-report-to-parliament/

	mitigated by the existence of separate incentives (such as OGA stewardship[7]).

Question 3: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 4: What kind of grace margin should be included?

[7] OGA Stewardship: https://www.ogauthority.co.uk/exploration-production/asset-stewardship/expectations/

Potential test 2: Reductions in operational greenhouse gas emissions from the sector benchmarked internationally

Rationale:

As with the first test, this potential test would address the issue of operational greenhouse gas emissions from oil and gas production operations, by making a positive checkpoint outcome contingent on the UK maintaining strong progress in reducing these emissions relative to other oil and gas producing countries.

Proposed Methodology:

This test would benchmark the UK oil and gas sector against other global producers in terms of associated production emissions. This criterion would be satisfied as long as the UK remained at a certain ranking with respect to this benchmark.

Analysis by the OGA[8] showed that in 2019 gas extracted from the UK Continental Shelf (UKCS) had an average emission intensity from offshore operations of 22 $kgCO_2e$/boe; whereas imported Liquefied Natural Gas (LNG) had a significantly higher average intensity of 59 $kgCO_2e$/boe, when liquefaction, transportation and re-gasification are included. However, imported gas by pipeline, predominantly from Norway, had an even lower average of 18 $kgCO_2e$/boe. This shows that while UK gas is comparatively cleaner than some of the alternative sources (LNG) there is still room for improvement. The checkpoint is an opportunity to compare the UK sector's performance with other global producers, and this test would help ensure that oil and gas production in the UKCS continues to perform well in terms of associated emissions when compared to other major producers.

It is proposed that when benchmarking the UK's emissions performance for oil production, it is compared with a **global average**. This is because oil is traded on an open market, and it is very difficult to trace the original sources of all crude oil imported into the UK.

Gas is different to oil in that it is easier to trace the origins of gas used in the UK. It is proposed that when benchmarking the UK's emissions performance for gas production, that the UK is compared with a **basket of countries** that is representative of the UK's then-existing gas suppliers. This would include Norway as well as our main sources of imported LNG.

[8] https://www.ogauthority.co.uk/the-move-to-net-zero/net-zero-benchmarking-and-analysis/natural-gas-carbon-footprint-analysis/

Pros	Cons
Targets the issue of carbon leakage: if the UK stopped producing its own gas and replaced domestic production with imports, then we would effectively be exporting our emissions. We could also subsequently be importing 'dirtier' gas which would on a global level be counterproductive. Would provide further motivation to the sector to continue to establish the UK as a global leader in clean production and set the standard worldwide.	It is challenging to accurately assess production and transportation emissions from some countries, as not all countries accurately report or monitor their associated emissions. This can however be mitigated through the use of multiple data sources, which will be OGA's approach in its emissions monitoring report.

Question 5: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 6: What data sources could be used in the application of such a test?

Question 7: Do you agree with the proposal for benchmarking oil and gas separately, and in slightly different ways as described?

Question 8: Do you have a specific suggestion for which countries the UK sector should be benchmarked against for oil and gas respectively?

Question 9: What position should the UK achieve relative to other countries' benchmarks in order for this test to be passed (e.g. above average, top quartile)?

Potential test 3: Status of the UK as a net importer or exporter of oil and gas

Rationale:

While the UK is working hard to reduce its consumption of oil and gas, it is not expected to produce more than it consumes. This test would address this issue by favouring a positive checkpoint outcome while the UK remains a net importer of oil and gas – subject to other tests being met – in order to minimise reliance on imports.

Proposed Methodology:

This criterion would be satisfied as long as the UK is expected to remain a net importer (i.e., the UK continues to use more oil and gas than it produces). Current projections show that the UK is forecasted to remain a net importer of both oil and gas for the foreseeable future as shown by Figure 1 and Figure 2. This means that, even with continued licensing, the natural decline of the UK oil and gas production is such that the UK is expected to use more oil and gas than it produces throughout the period to 2050.

Oil and gas currently provide three quarters of the UK's energy and the Climate Change Committee acknowledges that the transition to non-fossil forms of energy cannot happen overnight.

For gas, the relationship between import and export is relatively straightforward. On an annual average basis, almost all UK gas is consumed in the UK, with some gas piped to Ireland and The Netherlands, and gas from continental Europe and Liquified Natural Gas (LNG) shipped globally making up the difference.

Any reduction in UK production without an equivalent change in UK demand means more gas will need to be imported from abroad. OGA research[9] finds that the emissions from LNG are up to three times higher than domestically produced gas, a result of the carbon intensive liquefaction process, and the fact that LNG is transported by ship.

The picture for oil is more complex. Despite being a net importer of oil, more than 80% of UK produced oil is exported on the global market. This is for a combination of reasons including process optimisation and economics.

While this might lead some to conclude that continued gas production would be preferred over oil production, we understand that, for many fields, a mix of hydrocarbons (both gas and oil) is usually found, and it can be difficult to predict which reservoir fluids will be encountered at licensing stage. For that reason, we have rejected the idea that oil and gas could be licensed separately.

There is an open question as to what condition would need to be met for this test. Some options are as follows:

[9] OGA Research on LNG Emissions: https://www.ogauthority.co.uk/news-publications/news/2020/north-sea-gas-has-lower-carbon-footprint-than-imported-lng/

- UK remains a net importer of oil and gas combined
- UK remains a net importer of both oil and gas, even when treated separately
- UK can become a net exporter if other tests are met. For example, if UK production achieves a certain international benchmark with respect to associated emissions, a net export position may not prevent a positive checkpoint outcome.

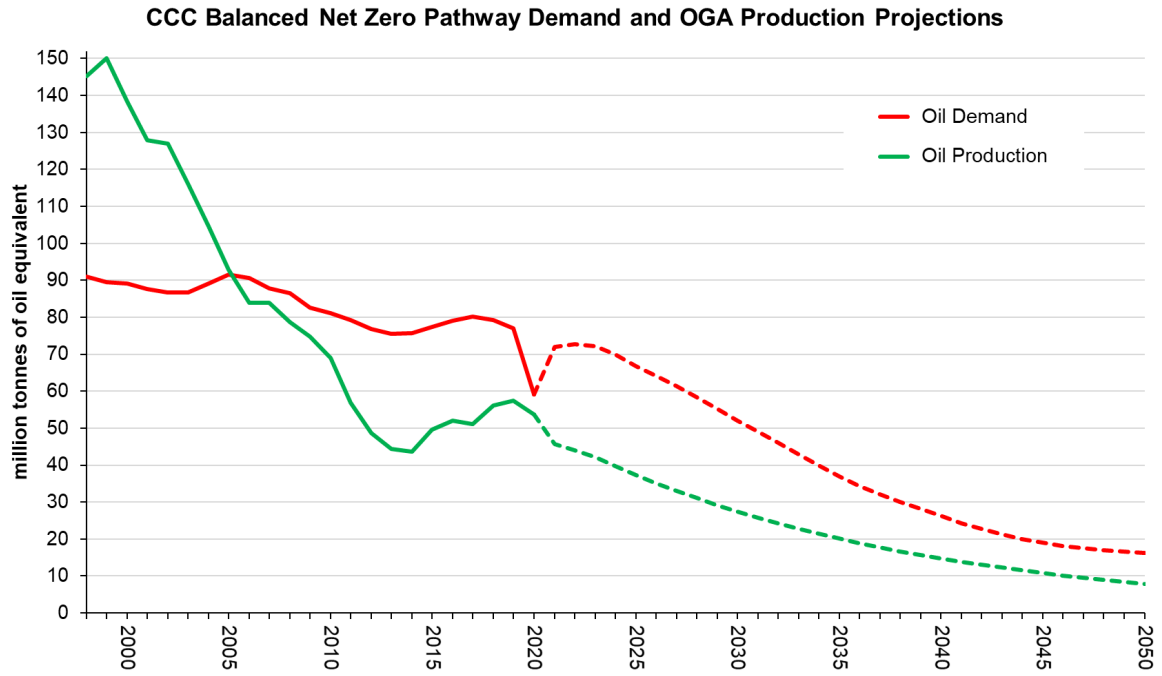

Figure 1: Projection of Domestic Demand vs Production – Oil

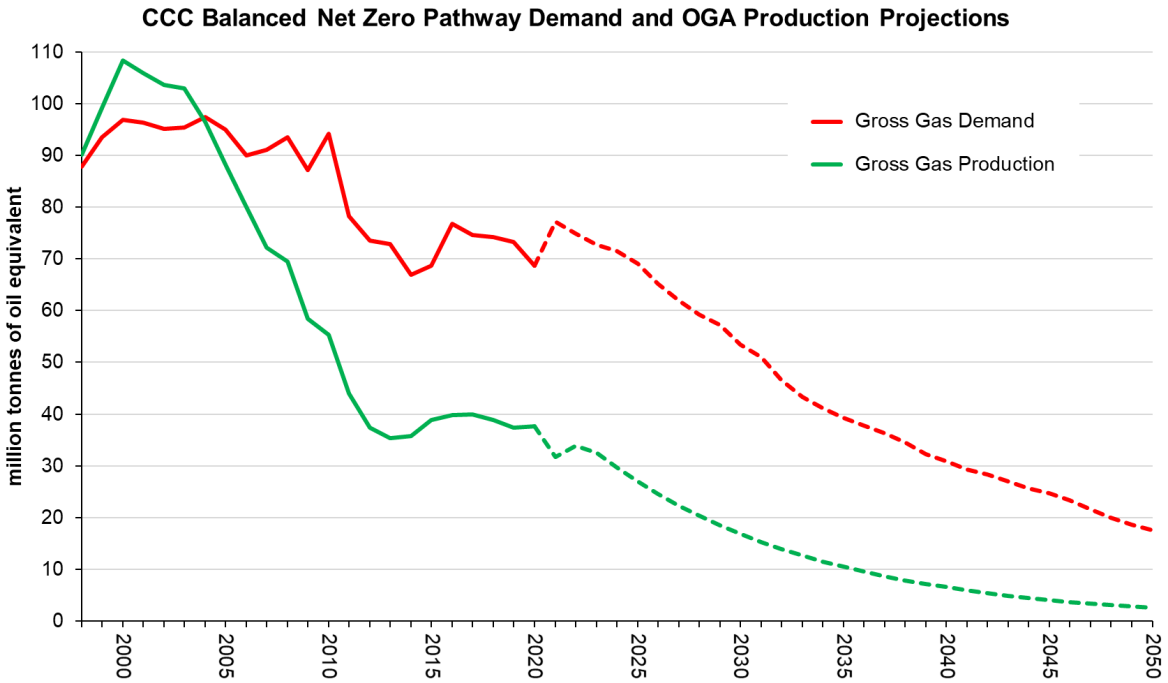

Figure 2: Projection of Domestic Demand vs Production - Gas

The above projections become more uncertain the greater the timeframe looked at. Therefore, a **time limit on the projections could be included.** For example, if this time period was 15

years, a checkpoint conducted in 2025 would look only at whether the UK is forecast to remain a net importer until 2040.

Pros	Cons
This test is relatively simple, and it acknowledges that a reduction in domestic supply (where domestic demand remains the same) would likely lead to greater dependency on import, especially for gas.	The situation for oil and gas is different but some versions of this test lump them together in one category. If the UK's production emissions are low in comparison to elsewhere in the world, then from a global emissions point of view, it can be argued that reducing UK production may have a net-increase impact on global emissions, albeit a small one.

Question 10: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 11: If the UK were to become a net exporter of oil and gas in the future for any reason, would this present a problem? If so, why?

Question 12: Do you have views on the forward time period that should be used when projecting whether the UK could become a net exporter of either oil or gas?

Question 13: Do you have views on whether it would be permissible for the UK to remain a net exporter of oil, while being a net importer of gas?

Potential test 4: Sector progress in supporting Energy Transition technologies

Rationale:

This test would incentivise investment in, and development of, the technologies we will need for the energy transition such as CCUS and Hydrogen.

Proposed Methodology:

This test would compare the sector's progress in the development of energy transition technologies with the commitments set out in the North Sea Transition Deal (NSTD). If the sector were to fall behind relative to a predefined trajectory towards the targets in the NSTD, this test would fail, resulting in a negative checkpoint outcome.

The Energy White Paper, published in December 2020, stated an ambition to capture 10 million tonnes of carbon dioxide per year by 2030, and to achieving 5 GW of low carbon hydrogen capacity by 2030. Commitment to both of these targets was confirmed by the sector in the North Sea Transition Deal. The Net Zero Strategy[10] outlines our commitment to deliver four CCUS clusters by 2030, with an increased ambition to capture 20-30 MtCO2 across the economy, including 6 MtCO2 of industrial emissions, per year by 2030 and 9 MtCO2 per year by 2035.

To deliver these ambitions it is important that the oil and gas industry play their part, leveraging existing infrastructure where appropriate to provide key transport and storage capability.

If this test were to be included, it is proposed that the investment targets outlined in the North Sea Transition Deal could be used as the initial ones, with the targets being adjusted as more detail is added to the target pathway in coming years, in accordance with the Net Zero Strategy.

Pros	Cons
The aim would be to incentivise the sector to invest in energy transition technologies and support their development.	The ability to directly influence the development of key energy transition technologies like CCUS and Hydrogen is limited to a small number of oil and gas companies, and therefore outside of the control of most of the sector. Making the checkpoint outcome dependent on the successful deployment of newer technologies may add uncertainty to the investment landscape. Some have argued that continued licensing is necessary to provide a stable investment environment for the sector to invest in energy transition technologies.

[10] https://www.gov.uk/government/publications/net-zero-strategy

Question 14: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 15: Do you have any specific suggestions on how progress could be measured?

Question 16: Are there other targets or pathways for Energy Transition technologies that could be used?

Question 17: Would this be a fair test, given that the delivery of the above targets is only within the control of a small number of operators?

Potential test 5: Consideration of international Scope 3 emissions

This test has been proposed in conversations with stakeholders. However as of yet, a full proposal for how the test would work has not been presented.

- Scope 3 emissions of UK produced oil and gas would depend on a number of factors, predominantly how the oil is used; burnt for fuel, used as feedstock for chemicals/plastics/aggregates, heavily refined etc.
- Methodologies for tracking the Scope 3 emissions of UK produced oil and gas are in their infancy, and there is no universally agreed approach to doing this. It should be noted that some organisations are currently attempting to do this[11].
- We are unaware of an agreed target pathway for reducing Scope 3 emissions of UK produced oil and gas that could be used as a reference for such a test.

The pros and cons of applying Scope 3 emissions as a test in the checkpoint are explored further below.

Pros	Cons
The inclusion of Scope 3 emissions in the checkpoint is something that several stakeholders have argued should be included. Scope 3 emissions are many times greater than emissions from scope 1 and 2, and inclusion would have a bigger impact.	The methodology for accounting for emissions in this manner is potentially highly challenging. Scope 3 emissions from exported oil and gas produced in the UK are covered by the destination country's emissions accounting and targets, and therefore, depending on the test design, there is a risk of double counting. We would need to consider how the evidence would be gathered, reported and assessed in the absence of consensus on calculation and verification.

Question 18: How can Scope 3 emissions be measured and monitored in a comparable way?

Question 19: How would a test that takes into account Scope 3 emissions be designed? Please detail your proposed methodology and state sources of data and projections that would be required.

[11] https://sciencebasedtargets.org/sectors/oil-and-gas

Potential test 6: Consideration of the 'global production gap'

Widely accepted research tells us that the global sum of governments' projections for oil and gas production far exceeds what the world can afford to burn if we are to achieve the goal of the Paris COP of keeping global temperature increases to 1.5°C. The difference between what is produced and what is "affordable" in climate terms is known as the "production gap". It is argued therefore, that measures to prevent further investment in oil and gas must be implemented.

A test which considers the production gap has been proposed in conversations with stakeholders. However, opinions differ on what production levels consistent with 1.5°C would look like for a single nation. Some argue for the immediate and complete cessation of oil and gas production. Others point to the global decline needed and say the UK should match that. Others argue for a position in between where the UK goes faster than the global average.

Pros	Cons
The consideration of the global production gap in the checkpoint is something that several stakeholders have argued should be included. Some stakeholders argue that by continuing exploration and development of new oil and gas reserves, the UK is increasing the production gap and therefore contributing to delaying global net zero. This could demonstrate UK climate leadership and could give the UK more leverage to encourage other fossil fuel producing countries to end production sooner.	It is not evident that this would have any impact on other producers. It would certainly increase UK imports over time, particularly of gas. This could increase overall global emissions (depending on the source). The complete cessation of domestic licensing would risk accelerating the decline of the UK oil and gas sector and undermining the energy transition we want to see.

Question 20: How would a test that considers the world's "production gap" be designed? Please detail your proposed methodology and state sources of data and projections that would be required.

Implementation of the Checkpoint

The Energy Act 2016 and the regulations made under it, transferred the licensing function conferred by the Petroleum Act 1998 from the Secretary of State for Energy and Climate Change (now the Secretary of State for Business, Energy and Industrial Strategy) to the Oil and Gas Authority.

The OGA therefore has the final say on whether to proceed with a licensing round. However, the Energy Act 2016 requires the OGA when exercising its functions to have regard to 'the need to work collaboratively with the government of the United Kingdom' and therefore the OGA would be expected to take the checkpoint outcome into account in future licensing round decisions. There also exists a power of direction from the Secretary of State towards the OGA where the Secretary of State considers that a direction is in the public interest. It should be noted, however, that neither collaborative working nor a direction can override the OGA's fundamental statutory obligations.

The final decision on how the checkpoint will be implemented is yet to be made, however the expectation is that the OGA will work collaboratively with the Department for Business Energy and Industrial Strategy, regardless of the outcome of a future checkpoint. There is no plan currently for the checkpoint to be put on a statutory footing.

There may be, at a later date, the option of putting the checkpoint on a statutory footing through primary legislation. If a decision was made to pursue a legislative solution, then the detailed content of that legislation would be subject to a further consultation exercise in accordance with the usual criteria.

Question 21: Do you have views on whether it would be advantageous to put the checkpoint on a statutory footing if such an opportunity arose in future?

An additional question remains which concerns how often the checkpoint would need to be repeated. For simplicity, in writing this document it has been assumed that the checkpoint would be a necessary precursor to each future licensing round. However, it is possible that a checkpoint could be considered valid for a longer period, and therefore cover more than one licensing round. For example, a checkpoint could be considered valid for a period of 3-5 years. This would offer some additional certainty to the industry and investors.

Question 22: Do you have views on how long the outcome of a checkpoint should be considered valid for?

An additional question is whether the outcome of the checkpoint should apply to onshore licence rounds (within England) or not. The onshore sector is much smaller than the offshore, and there have historically been significantly fewer licences awarded for onshore. However, BEIS is minded to include the onshore sector in the outcome of any checkpoint. We would appreciate any arguments for or against this proposal.

Question 23: Should the checkpoint outcome apply to potential future onshore licensing rounds within England?

‘Out of Round’ Licence Awards

The intention of the checkpoint is to assess the compatibility of future licensing with UK climate change objectives, and not to prevent the development of fields and discoveries under existing licences.

In some circumstances, the OGA allows amendments or additions to existing licences to facilitate development of previously awarded licences. This process is often referred to as “out of round” licensing by the OGA.

As these awards are not part of the licensing round process, and are about facilitating the use of existing acreage, our ‘minded to’ position is that they would not be captured by the climate compatibility checkpoint.

The OGA website has more information on “out of round” licensing with examples of the kind of situations in which this is appropriate.. Any development would of course be subject to the normal rigorous regulatory processes and the effective net zero test involved in awarding consent for development, under the requirements of the OGA strategy.

Question 24: Do you agree that ‘out of round’ should be subject to the existing regulatory process and effective net zero test, rather than the climate compatibility checkpoint?

Consultation questions

Principles of the Checkpoint

Question 1: Are these the right principles? Are there others that should be included?

Checkpoint Tests

Question 2: Are there other things that the checkpoint could take into consideration? If yes, please provide proposals for how these could be considered objectively, as well as data sources that could be used to support the inclusion of such a consideration (the more information that is provided here the better). You may wish to read the rest of the document before answering this question.

Potential test 1: Reductions in operational greenhouse gas emissions from the sector vs. commitments

Question 3: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 4: What kind of grace margin should be included?

Potential test 2: Reductions in operational greenhouse gas emissions from the sector benchmarked internationally

Question 5: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 6: What data sources could be used in the application of such a test?

Question 7: Do you agree with the proposal for benchmarking oil and gas separately, and in slightly different ways as described?

Question 8: Do you have a specific suggestion for which countries the UK sector should be benchmarked against for oil and gas respectively?

Question 9: What position should the UK achieve relative to other countries' benchmarks in order for this test to be passed (e.g. above average, top quartile)?

Potential test 3: Status of the UK as a net importer or exporter of oil and gas

Question 10: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 11: If the UK were to become a net exporter of oil and gas in the future for any reason, would this present a problem? If so, why?

Question 12: Do you have views on the forward time period that should be used when projecting whether the UK could become a net exporter of either oil or gas?

Question 13: Do you have views on whether it would be permissible for the UK to remain a net exporter of oil, while being a net importer of gas?

Potential test 4: Sector progress in supporting Energy Transition technologies

Question 14: Should this test be part of the checkpoint as described? If no, please describe how it should be adapted to make it suitable.

Question 15: Do you have any specific suggestions on how progress could be measured?

Question 16: Are there other targets or pathways for Energy Transition technologies that could be used?

Question 17: Would this be a fair test, given that the delivery of the above targets is only within the control of a small number of operators?

Potential test 5: Consideration of international Scope 3 emissions

Question 18: How can Scope 3 emissions be measured and monitored in a comparable way?

Question 19: How would a test that takes into account Scope 3 emissions be designed? Please detail your proposed methodology and state sources of data and projections that would be required.

Potential test 6: Consideration of the 'global production gap'

Question 20: How would a test that considers the world's "production gap" be designed? Please detail your proposed methodology and state sources of data and projections that would be required.

Implementation of the Checkpoint

Question 21: Do you have views on whether it would be advantageous to put the checkpoint on a statutory footing if such an opportunity arose in future?

Question 22: Do you have views on how long the outcome of a checkpoint should be considered valid for?

Question 23: Should the checkpoint outcome apply to potential future onshore licensing rounds within England?

'Out of Round' Licence Awards

Question 24: Do you agree that 'out of round' should be subject to the existing regulatory process and effective net zero test, rather than the climate compatibility checkpoint?

This consultation is available from: www.gov.uk/government/consultations/designing-a-climate-compatibility-checkpoint-for-future-oil-and-gas-licensing-in-the-uk-continental-shelf

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