Department for Energy Security & Net Zero

Carbon Capture, Usage and Storage: Amendment to Electricity Supplier Obligations Regulations

Government response to the consultation on the implementation of the Dispatchable Power Agreement business model

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Introduction

Context

Carbon Capture, Usage and Storage (CCUS) is an emerging sector of central importance to decarbonising the UK's economy and electricity system and meeting our Sixth Carbon Budget pathway commitments. CCUS represents a significant opportunity for the UK economy with the potential to support up to 50,000 jobs by 2030 and deliver £4.3 billion in Gross Value Added (GVA) by 2050 through exports.

The Department[1] set out proposals for the design of funding models to support Power CCUS in a consultation on potential business models for carbon capture and storage in 2019[2]. That consultation informed the subsequent development of the Dispatchable Power Agreement (DPA), the proposed contractual framework intended to incentivise Power CCUS deployment and based on Contracts for Difference (CfD) standard terms and conditions. The CfD scheme remains the government's main mechanism for supporting new, low carbon electricity generation projects by guaranteeing a set price for generation.

The first deployment of the DPA is contingent on successful negotiations with projects applying to be included in Track 1 Phase 2 of the CCUS Cluster Sequencing process. Any decision to award support is subject to rigorous value for money assessment.

CCUS remains vital to this government's plans achieve Net Zero and we intend to bring forward multiple additional power CCUS projects by 2030, subject to affordability, value for money, and the availability of sufficient CO2 transport and storage capacity. This will be important to delivering our key mission of clean power by 2030. To achieve this, this government is proceeding at pace to deliver CCUS in the first two clusters, the East Coast Cluster (Teesside and the Humber) and Hynet (North West and Wales), as well as making progress on the next two clusters in Viking (the Humber) and Acorn (North East Scotland).

The DPA provides payments to Power CCUS generators for a) the availability of low carbon electricity generation capacity, b) a proportionate capital cost of a Transport and Storage Provider's network capacity requirement, c) the remaining proportion of a Transport and Storage Provider's share of allowed revenue, and d) a Variable Payment to incentivise a Generator to dispatch ahead of higher carbon unabated generation plant. This consultation sought views on regulatory amendments to enable payments a), b) and c). Payment d) the Variable Payment, is already provided for in the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014[3].

[1] Department for Energy Security and Net Zero (DESNZ), formerly Business, Energy and Industrial Strategy.
[2] Business models for carbon capture, usage and storage: Consultation (2019)
[3] The Contracts for Difference (Electricity Supplier Obligations) Regulations 2014

Overview of consultation proposals

The Amendments to the Electricity Supplier Obligation Regulations to implement the Power CCUS Dispatchable Power Agreement business model consultation ("**DPA Consultation**") was first published on 4 December 2023 and closed on 29 January 2024. The consultation was reopened for an additional 28 days due to the consultation-stage Impact Assessment being incorrectly omitted when first published. The consultation reopened 12 March 2024 and closed 10 April 2024.

The Consultation comprised of two sections; Part 1, Amending the Electricity Supplier Obligations Regulations to enable Availability Payments for DPA Generators, and Part 2, T&S Regulatory Investment (TRI) Revenue Model.

Part 1 sought views on the proposed amendments to the Regulations which expands how the DPA Counterparty calculates the levy rate. The rate is required to inform electricity suppliers of their obligation requirements necessary to pay DPA supported Generators for the amount of low carbon generation capacity they have made available (the "**Availability Payment**"). This is because the existing regulations only contemplate payments that are calculated on the amount of electricity dispatched by a CfD supported Generator. For a DPA supported Generator, the calculation also needs the ability to contemplate the proposed Availability Payment. The Part 1 questions sought views on any other relevant considerations, the workability of the proposed amendment to the charging calculation and implications for forecasting the levy rate.

Part 2 sought views on the proposals to enable the levy to cover a DPA Generators' proportionate Transport and Storage (T&S) Network payments to provide a low carbon route to generation. The proposed payments would cover the proportionate fixed capital costs, operation costs and other costs including tax and decommissioning of the Generators' associated T&S Network. A proposed mutualisation mechanism will operate where the T&S Network is not fully utilised to cover any revenue shortfall, protecting a Transport and Storage company (T&SCo) from revenue risk. The questions in Part 2 sought views on the mutualisation process, its suitability and workability.

Engagement with the consultation proposals

Responses to the consultation were submitted through an online response tool (Citizen Space) or by email. The consultation received 14 responses from 13 respondents, out of which five were from electricity suppliers, five were received from power generation operators or developers, and one each from an industry trade body and a consumer charity.

Electricity suppliers as well as industry, trade associations, academics and individuals with an interest in CCUS were contacted to ensure an awareness of the consultation and sufficient opportunity to respond.

Next steps

Following the consideration of the feedback received from this consultation, the government will implement legislation to amend the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014. The amendments would enable the implementation of the Dispatchable Power Agreement to enable future Power CCUS plants.

The Department will continue to engage with industry and other interested parties as regulations are progressed.

Responses to the consultation

The following response summarises the feedback received from the consultation respondents and outlines the policy response. The government is grateful for all responses and thanks respondents for taking the time to provide feedback. All feedback has been carefully considered and taken into account in the development of the government response.

General themes

A number of respondents included feedback on the general theme of this consultation or beyond the focus of the specific questions. More broadly respondents referred to the purpose of incentivising Power CCUS as well as the CCUS sector more generally. A number of respondents additionally raised the proposed use of the Electricity Supplier Obligation levy to fund DPA payments to Power CCUS Generators and encouraged the consideration of alternative methods of funding including through general taxation. One respondent encouraged deliberation on the impact on consumers within the context of the broader energy transition.

Power CCUS forms an integral part of the CCUS programme. Alongside renewables, low carbon dispatchable Power CCUS is critical for future energy security and to provide the power sector's contribution to the delivery of Carbon Budget 6.

One respondent called for further attention to be given to Domestic Demand Flexibility noting the need to harness low carbon flexibility and to support the development of a range of enabling technologies.

The principle of utilising the Electricity Supplier Obligation funding for the CfD scheme is long established. The government first consulted on a high-level approach to the proposed Supplier Obligation mechanism in order to make payments due under CfDs to be paid to generators in November 2012[4]. Following feedback, the Supplier Obligation was formalised in the Energy Act 2013[5] and subsequent secondary legislation.

[4] Contracts for Difference (CfD) Supplier Obligation: call for evidence, August 2013
[5] Energy Act 2013

The principle of Power CCUS projects being eligible for CfDs, and by extension Electricity Supplier Obligation funding, has been additionally long formed. The 2012 CCS Roadmap[6] and 2014 Next Steps in CCS: Policy Scoping Document[7] envisaged that new build and retrofit CCS projects would be eligible for CfDs. The Contracts for Difference (Definition of Eligible Generator) Regulations 2014[8] includes *"a generating station connected to a complete CCS system"* in the schedule of such Generator types eligible for support under a CfD (Regulation 3(5)).

The Department consulted on potential funding methods for Power CCUS in July 2019 including utilising standard CfD terms for CCUS or developing a Dispatchable CfD amongst other options[9]. Following feedback, in the subsequent HMT Budget 2020 the government announced the intention to support the construction of at least one CCUS Power plant by 2030 'using consumer subsidies'[10].

The December 2020 CCUS Update on Business Models set out the first considerations of the DPA design. This included subsidy payments for Power CCUS plants, based on standard CfD terms, which may be funded by consumers through the existing framework of Supplier Obligation whilst ensuring value for money for consumers[11]. The intention to recover the costs of the DPA were reiterated in additional DPA business model updates in May 2021, October 2021 and April 2022[12].

Regarding demand flexibility, it is recognised that the way we generate and consume electricity will change as we transition to a decarbonised electricity system. It is additionally acknowledged that the need to deploy non-weather dependent low-carbon dispatchable power as part of the broader energy mix in a decarbonised system.

[6] The CCS Roadmap. April 2012
[7] CCS policy scoping document. August 2014, paragraph 3.11
[8] The Contracts for Difference (Definition of Eligible Generator) Regulations 2014
[9] Carbon capture, usage and storage (CCUS): business models. July 2019
[10] HMT Budget 2020
[11] Carbon capture, usage and storage (CCUS): business models. December 2020
[12] Carbon capture, usage and storage (CCUS): business models. December 2023

Part 1: Amending the Electricity Supplier Obligation Regulations to enable Availability Payments to DPA Generators

Question 1

The costs of the DPA shall be borne by Electricity Suppliers through extending a levy under the ESO Regulations 2014. This is because suppliers are the electricity market's only interface with consumers who are the ultimate beneficiary of the transition to a low carbon electricity system. Are there any other relevant considerations we have not taken into account determining this position?

Summary of responses

A number of respondents expressed support for the principle of Electricity Suppliers bearing the costs of the DPA through the levy under the Electricity Supplier Obligation Regulations 2014. Several respondents commented on the strong need to implement the DPA in order to deploy Power CCUS, noting the benefits of incentivising future investability and power dispatchability as part of the future energy mix. One respondent encouraged a consideration of the perceived value to suppliers and consumers, ensuring it is proportionate to the levies raised.

Several respondents expressed the importance of aligning the DPA payment process with that of the CfD, due to DPA being based on the same contractual framework as the CfD. The differences between the DPA and a CfD, such as the inclusion of the availability payment mechanism, were additionally noted. One respondent encouraged separating out the CfD and DPA levy costs.

A number of respondents questioned the appropriateness of using the Electricity Supplier Obligation to fund the DPA and felt alternative funding methods should be explored, including funding through general taxation. Five respondents expressed the need to manage a number of different levies being applied to electricity suppliers simultaneously, including other CfD schemes and Warm Home Discount; the cumulative impact to consumers of these schemes should be considered. Three respondents noted the potential imbalance between charges passed on to electricity consumers and those passed on to gas consumers.

Several respondents raised concerns with the potential level of risk that may be passed on to electricity suppliers which would require further consideration. This may be caused by perceived inefficiencies in forecasting future levy payments and the potential for volatility in DPA payments giving rise to sudden changes in costs. Respondents pointed to the need to provide accurate levy forecasts to ensure certainty for suppliers and consumers, especially in instances of suppliers providing long-term fixed tariffs. Respondents asking for further understanding and analysis of DPA costs urged a consideration of suppliers' cash flow amongst other impacts.

Three respondents encouraged a consideration of sufficient financial safeguards for the DPA Counterparty to ensure levies are collected and distributed efficiently whilst reducing risk.

One respondent considered the focus of the question was outside of their interest and three respondents did not provide a specific response.

Government response

Government welcomes the range of views and feedback received relating to Electricity Suppliers bearing the costs of the DPA.

As outlined, the DPA intends to incentivise the deployment of Power CCUS through financial support drawn from the Electricity Supplier Obligation levy. This will enable the deployment of flexible low carbon power to complement intermittent renewables and nuclear power. The DPA business model has been iteratively developed and guided by the principles of CCUS business model design to provide value for money for consumers whilst instilling confidence among investors to develop the sector.

The deployment of Power CCUS presents a number of benefits to electricity consumers. A clean power system by 2030 is likely to be composed predominantly of renewable electricity. Achieving the government's clean power mission by 2030, which is a reliable power system will mean renewables need to be complemented by technologies which provide clean power for when the wind is not blowing or the sun does not shine[13].

CfD contracts are managed by the Low Carbon Contracts Company (LCCC) in their role as the CfD Counterparty in order to make payments to Generators. The DPA is a type of CfD and based on the CfD standard terms and conditions. Methods of delivering the DPA have been considered such as the government managing the DPA contracts itself or establishing a new counterparty and legal framework to manage DPA contracts. However, our initial analysis has shown that amending the ESO Regulations 2014 with the LCCC as the designated counterparty provides the most cost-effective solution for implementing the DPA.

Payments made to any DPA supported Generator will be subject to successful negotiations with power projects applying for support through the CCUS Cluster Sequencing process. In order to manage levy payments effectively it is anticipated that there will be no new DPA-specific invoicing process, rather charges will be incorporated within the Interim Levy Rate calculation as set out by the LCCC. Further details on the arrangements will be shared by LCCC closer to the point of DPA payments being collected.

The use of the Electricity Supplier Obligation levy to provide DPA funds over alternative financing methods is considered in the General themes above.

Regarding the need to manage a number of different levies being applied to electricity suppliers simultaneously, by placing the DPA contract under the existing CfD funding mechanism, the need to develop a new independent levy is avoided.

[13] Modelling 2050: Electricity System Analysis

All DPA subsidy funding will be subject to extensive Value for Money and affordability assessments to ensure the costs are affordable for consumers. The government recognises the need to consider all levies applied to consumer needs. As set out in the Spring Budget 2023, HMT announced an intention to refresh the existing Control for Low Carbon Levies (CLCL) framework[14] which regulates the introduction of new consumer levies.

Under the CfD scheme, a levy is placed on electricity suppliers to meet the costs of the scheme. The levy is not extended to gas suppliers. This is due to CfD contracts seeking to support the deployment of low carbon electricity generation and make a meaningful contribution to a fully decarbonised power system. Power CCUS, enabled by the DPA, similarly seeks to contribute a significant role to the benefit of the electricity system by providing dispatchable low-carbon electricity generation, available and dispatched when that generation is needed.

The DPA seeks to develop a mechanism which provides sustainable financing with appropriate risk allocation. The government recognises the strong need to consider the impact of any changes on suppliers and will publish a full Impact Assessment at the point of publication of the subsequent secondary legislation enabling the regulatory change.

Regarding levy forecasting and the potential volatility of DPA payments, an Interim Levy Rate (ILR) will be set based on the Counterparty's estimate of expected payments to DPA Generators and expected electricity supply for the quarter. Suppliers will then be notified by the Counterparty (the LCCC) of the ILR three months in advance of the Quarterly Obligation Period, as well as a forecast of the expected IRL for at least an additional three quarters. The LCCC additionally provide a 24 month ahead forecast for CfD generation[15]. When compared to standard CfD payments, DPA payments are not anticipated have greater volatility with forecasting likely more accurate.

The DPA consists of two payments; an Availability Payment (AP) and a Variable Payment (VP). The AP is based on the Availability Payment Rate (agreed through negotiations and subject to Value for Money tests) and paid on the availability of generation, availability of capture, and Net Dependable Capacity, plus T&S Capacity and Network charges.

As the AP is based on expectedly stable factors such availability of generation, rather than actual level of dispatch, payments would not be expected to suffer from possible volatility. Furthermore, as the AP ILR forecast will be based on optimal conditions of availability (based on a CCUS Power generator's assumed maximum load factor and capture capabilities), the rate can only be forecast downwards reflecting any reduction in the availability of generation or capture performance by a DPA Generator. Ultimately, due to the AP's arrangement, the IRL forecast cannot increase meaning suppliers would not be impacted by AP negative volatilely.

The Variable Payment component will account for the additional cost of generation for a Power CCUS Facility compared to an unabated Reference Plant, which is intended to be a CCGT with the highest defined thermal efficiency, assessed on a lower heating value (LHV) basis

[14] HMT Budget 2023
[15] Low Carbon Contracts Company, Advanced Forecast CfD Generation

operating on the GB electricity system. This is a reactive payment intended to correct the merit order such that a Power CCUS facility can dispatch ahead of higher carbon unabated plant in scenarios where a high fuel gas cost relative to a low carbon cost are insufficient to incentivise this alone.

Question 2

Do you have any comments regarding the workability of amending the ESO Regulations 2014 to extend the CfD Daily Contribution calculation to enable the levy to be charged in relation to the new Availability Payment that will be made under the DPA?

Summary of responses

Three respondents offered direct responses to the question. All three respondents expressed a preference to understand the exact legislative wording of the regulation amendment to assess the workability of the proposal. Several respondents noted how ESO regulations had been previously amended successfully. One respondent sought further details on the legislative process and timings.

Government response

Following the consideration of the feedback received within this consultation, the corresponding secondary legislation enabling the change in the regulations will be drafted and published. At the point of publication respondents will be able to access the exact legislative wording. However, given the DPA is a type of CfD, based on the AR4 standard terms and conditions and updated in line with subsequent drafting updates to the renewable CfD framework since, we do not anticipate any change to the mechanics of the LCCC timings around ILR and TRA calculation and communication to Suppliers.

Following the publication of the secondary legislation to enable the proposed regulatory amendments, the LCCC will begin a process to review the relevant methodology in time for the launch of its operating.

The legislation will be amended in accordance with Section 6(8)(b) of the Energy Act 2013 which requires a proposed instrument to be laid before and approve by a resolution of each House of Parliament.

Question 3

Do you have any comments on the proposed amendments to how the Interim Levy Rate (ILR) forecast is derived and the ability of it to accurately estimate cost, income, electricity supply and availability of electricity generation supply?

Summary of responses

Three respondents offered direct responses to the question. Respondents noted the comprehensiveness of the proposals to ensure the three aspects of DPA payments are enabled. All respondents raised the importance of accurate forecasting of the Interim Levy Rate and the need to accurately forecast Estimated Quarterly Obligation costs. Respondents noted the difference in CfD levy payments and the proposed DPA payments which incorporate availability payments and, unlike CfD schemes, encourage a mid-merit order.

Respondents raised the importance of transparency in forecasting and calculating the ILR.

Government response

The accuracy of forecasting and the consideration of the separation of CfD and DPA payments are considered above.

As noted above, the Interim Levy Rate (ILR) will be set based on the Counterparty's estimate of expected payments to DPA Generators and expected electricity demand for the quarter. This estimate is pooled in with all other CfD contracts. Suppliers will then be notified by the Counterparty of the ILR three months in advance of the Quarterly Obligation Period, as well as a forecast of the expected IRL for at least an additional three quarters. The LCCC additionally provide a 24-month rolling forecast for CfD generation. The AP ILR forecast will be based on optimal conditions of availability, the rate may be forecast downwards in order to reflect any reduction in the availability of generation or capture by a DPA Generator.

Part 2: T&S Regulatory Investment (TRI) Revenue Model

Question 4

In the context of the DPA, do you have any comments on the proposed approach to mutualisation of T&S fees, which is a system wide approach and is proposed to be used across all users and business models, in creating a fair and equitable system of revenue recovery?

Summary of responses

Three respondents were in support of a mutualisation cap being an essential element of the proposal. Respondents requested further information on how the proposed cap would function; including when it would be introduced, as the highest revenue gaps are likely when projects are first connecting to the T&S network as one respondent noted, as well general details on how the cap would be set and the formulae behind this.

One respondent recommended the Revenue Support mechanism to be used to safeguard T&SCos in the first instance, and then mutualisation to be employed once clusters are more stable. Two respondents asked whether it was reasonable for extra costs to be placed on suppliers in situations where the underutilisation of the T&S network has been caused by non-DPA capture facilities and questioned the impact of incentivising risk.

Eight respondents did not provide a specific response to this question.

Government response

The range of received views and feedback submitted in response to the TRI revenue model has been welcomed and carefully considered.

The government is seeking to develop a Transport and Storage Regulatory Investment Model that provides long term confidence to investors with predictable and stable returns. As is common across regulated networks, the government intends to use mutualisation to address over and under collection of allowed revenue. The aim of mutualisation is to retain flexibility as market conditions change whilst promoting investability, eventually developing a system operating without government financial support.

The government is of the view that users' exposure to increasing mutualised T&S feeds should be limited by a cap and recognise further information on setting the cap would be welcomed. The government is minded to use the UK ETS price as the basis (denoted as £/tonne CO2) and proposes to ensure mutualisation is available from the beginning of operation to help mitigate the revenue gap the T&SCo may face during periods of utilisation build-up and provide clarity of approach. Further information on the mutualisation cap will be made available with the publication of the updated Carbon capture and storage (CCS) Network Code following the updated Heads of Terms consultation[16].

[16] Carbon capture and storage (CCS) Network Code: updated Heads of Terms, December 2023

It is currently proposed to use Revenue Support as a last resort mechanism to enable the T&SCo to recover any remaining revenue gap only after the Risk Mitigation Mechanisms (RMMs), funded through mutualisation, is exhausted. Unlike the RMM, the Revenue Support would draw on government funds directly.

The government is minded to maintain this priority order. As stated, the government seeks to develop a CCUS sector which is able to operate in the future without significant HMG financial support, but with a financial model that encourages investment and long-term security. Maintaining government support as a last resort revenue support mechanism ensures direct government financial support is minimised and better Value for Money. Further information on the TRI model can be found in the latest Transport and Storage Business Model update[17].

Regarding underutilisation of the T&S network caused by non-DPA capture facilities, the TRI Revenue model and its associated mutualisation mechanism seeks to provide long term confidence for investors with predictable returns for a first of a kind technology within a reasonable range to ensure Value for Money for suppliers and consumers. When the T&S network is not fully utilised, the amount of revenue a T&SCo collects may be less than its total allowed revenue which would be addressed through mutualisation. Underutilisation may be caused by a number of factors including developmental and operational delays associated with new users joining the network. Mutualisation fees will be utilised regardless of which emitter causes the fall in demand.

Mutualisation levels will reflect network demand ensuring users pay their fair share of network usage, proportionate to users' network connection size and network usage profile. As such, DPA Generators (funded through electricity supplier obligation) will contribute a proportional amount to the network capacity they utilise and protected from excessive mutualisation fees through a mutualisation cap. The government is minded to consider this a fair proposal which balances security for the T&SCo and a stable system for users.

[17] CCUS: Update on the Business Model for Transport and Storage - Heads of Terms, December 2023

Question 5

Do you have any comments on the workability of the proposed approach to mutualisation and Revenue Support under the TRI model?

Summary of responses

Two respondents commented on the importance of having a streamlined and efficient process for network users to connect to the T&S Network, including implementing measures to reduce the risk of infrastructure delays which would reduce the knock-on costs related to recovering lost revenue.

Another expressed a concern regarding the amount of information which will be available to suppliers in month 8 of the charging year (the intended deadline to process a revenue shortfall and inform suppliers of potential increases in ILR). Respondents pointed to the need for transparency in this subject in order for suppliers to revise their own levy forecasts and successfully manage risk.

One respondent was in favour of considering alternative methods of funding the RSA, including through general taxation, as a primary means to safeguard the T&SCos from revenue gaps and account for any unexpected increases in charges.

Nine respondents did not have a specific response to the question.

Government response

Regarding the efficiencies of T&S connections, the T&SCo is expected to have responsibility for the system operation of its own network. The T&SCo will additionally be regulated by the CCS Network Code which is being developed through engagement with industry[18]. The T&SCo will additionally develop guidelines and operating procedures to ensure the network is operated efficiently and safely.

The Network Code will have mechanisms to incentivise good practice, requiring the T&SCo to act as a “Reasonable and Prudent Operator” and operate the network in an economic, efficient, effective and coordinated manner. The T&SCo and network user will be required to enter into a Construction Agreement to govern the works required to connect a user to the T&S network. The Network Code sets out the process of notifications of delays and responsibilities for costs.

The transparency and availability of the ILR is discussed in Question 3.

It is not proposed to use the Supplier Obligation as the source of funding for RSA to a T&SCo where that funding shortfall is attributable to DPA supported Generator. Rather, in such a circumstance of a DPA supported Generator insolvency, the DPA will not be terminated until the end of the relevant charging year, suspending all but the obligations of the counterparty to pay the T&S Capacity & Network Charge. The proposed process is set out in the ‘Amendment

[18] Carbon capture and storage (CCS) Network Code: updated Heads of Terms, December 2023

to the Electricity Supplier Obligation Consultation Document, Part 2 Tri Revenue Model – DPA User Insolvency'[19] section that this document is in response to.

[19] Carbon Capture, Usage and Storage: Amendment to Electricity Supplier Obligation Regulations. A consultation on the implementation of the Dispatchable Power Agreement business model 2024.

Question 6

Through the lens of a DPA supported Generator, do you have any wider comments on mutualisation being the most suitable mechanism available to allow the T&SCo to recover its allowed revenue from network users, before calling on funding from government backed RSA?

Summary of responses

One respondent welcomed more detail on the Revenue Support that T&SCo will be entitled to, and what initials conditions precedent are needed before T&SCo enter into an RSA with the RSA Counterparty.

One respondent agreed that T&S fees should be recovered first from users before calling on the RSA. The respondent additionally agreed a cap in mutualisation in line with UK ETS price would limit the risk of a false incentive for users and encourage the uptake of CCS services for future users.

One respondent commented that Availability payment should have prioritisation ahead of T&SCo mutualisation as T&SCos have an addition layer of support which DPA Generators do not have. They communicated that linking T&SCo mutualisation to a levy on electricity suppliers would increase the burden on suppliers and make it more likely that a supplier could fail thus spreading the burden of mutualisation amongst the remaining suppliers. Moreover, they raised a concern that whilst suppliers have been required to put in place more robust financial resources and prove financial resilience, the volumes of support needed for T&SCos could be a strain.

Another respondent noted the benefit of the mutualisation mechanism in supporting the viability of a T&SCo which in turn benefits the connected capture facilities. The respondent suggested a consideration of recapturing mutualisation fees through elevated T&S fees at the point of connection to enable fairer distribution.

Nine respondents did not provide a specific answer to this question.

Government response

Full details of the T&S Revenue Support Agreement can be found in the December 2023 T&S Heads of Terms[20] which includes the indicate Heads of Terms of the Revenue Support Agreement. The T&S Heads of Terms remain subject to ongoing development in conjunction with the development of other relevant components of the CCUS programme.

The considerations relating to mutualisation are discussed in above in Question 4.

As mentioned above, the aim of mutualisation is to retain flexibility as market conditions change whilst promoting investability. The government is of the view that users' exposure to increasing mutualised T&S fees should be limited by a cap and it is currently proposed to use Revenue Support as a last resort mechanism to enable the T&SCo to recover any remaining revenue gap only after the Risk Mitigation Mechanisms (RMMs), funded through mutualisation,

[20] CCUS: Update on the Business Model for Transport and Storage - Heads of Terms, December 2023

is exhausted. Unlike the RMM, the Revenue Support would draw on government funds directly. Mutualisation levels will reflect a user's network demand ensuring users pay their fair share of network usage and be proportionate to users' network connection size and network usage profile. As such, DPA Generators (funded through electricity supplier obligations) will contribute a proportional amount to the network capacity they utilise and protected from excessive mutualisation fees through a mutualisation cap.

Question 7

Any other general comments relating to the integration of the TRI model in to the DPA Business Model?

Summary of responses

Some respondents supported the integration of the TRI model into the DPA Business Model. One respondent encouraged the consideration of the various interactions as the business model is developed, including the connections to non-pipeline transport, the Power BECCs business model, CCS network code, the Capacity Market, and the ongoing Review of Electricity Market Arrangements (REMA).

Another respondent encouraged separating out the CfD and DPA levy costs for electricity suppliers noting the different beneficiaries of the levy.

One respondent emphasised the importance of ensuring Ofgem have sufficient time to incorporate adjustments into the quarterly price cap.

Government response

The government welcomes the feedback from respondents on integrating the TRI model in to the DPA business model. The DPA forms one part of the broader CCUS programme and the importance of successfully aligning the DPA with other models is recognised. This includes a careful consideration of how the DPA interacts with other CCUS business models.

Further information on the CCS Network Code will be available following the updated Heads of Terms consultation[21]. Further information on the Review of electricity market arrangements (REMA) can be found in the REMA second consultation[22].

As discussed above, by placing the DPA contract under the existing CfD funding mechanism the need to develop a new independent levy is avoided and levy volatility may be reduced.

The TRI model aims to establish an Economic Regulatory Regime that provides sufficient flexibility to allow for future market expansion.

The importance of ensuring sufficient time to reflect costs and make appropriate adjustments is recognised. By establishing the point at which the charging year begins, and network charges occur, the quarterly price cap will be able to be appropriately adjusted.

[21] Carbon capture and storage (CCS) Network Code: updated Heads of Terms, December 2023
[22] Review of electricity market arrangements (REMA): second consultation, March 2024

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