

Offshore Decommissioning in the UK Outlook and Key Trends

March 24, 2023 Glenn Kangisser, Shu Shu Wong

PRACTICES International, Shipping, Offshore Oil and Gas, Oil and Gas

Activity in the offshore energy infrastructure decommissioning sector in the UK is forecasted to be worth around £20 billion to the supply chain by 2031.

Together with the ongoing development of the offshore wind sector (amongst other less carbon intensive sources of energy), and the lack of political consensus around supporting the oil and gas industry in recent years, there is a renewed focus on decommissioning activity, particularly in the North Sea. In particular, the decommissioning of wells continues to dominate the market with an overall 48% share of the spending, followed by topsides and subsea infrastructure removal.

Overview of the decommissioning sector

The decommissioning sector focuses on emissions reduction during operations, repurposing existing infrastructure for CO2 storage, identifying reuse opportunities during onshore disposal and supporting the offshore wind industry.

In Offshore Energies UK's ("OEUK") recently published "Decommissioning Insight 2022", OEUK anticipates that about 2,100 wells will be decommissioned over the next decade with almost £20 billion spent on decommissioning in the North Sea. In 2022, 14% of the UK's oil and gas expenditure was spent on decommissioning, and this is expected to rise to 19% by 2031.

Key opportunities and challenges

The continued development and growth of the decommissioning sector opens up a myriad of opportunities, but as with most things, it also carries some challenges, as set out below.

- *New energies*

The offshore wind industry is expected to have the biggest impact on oil and gas decommissioning due to the shared requirement for heavy lift assets. Long campaigns for multiple windfarm installations have understandably been a more attractive opportunity compared with short technically challenging decommissioning projects. In order to overcome the shortage of equipment and personnel, cross-collaboration between the two industries has been actively encouraged as a means of increasing efficiency and cooperation as well as reducing costs.

For instance, as part of the stakeholder engagement process, OEUK's new Offshore Wind Decommissioning Network is expected to create a platform for offshore wind developers to present their decommissioning programmes to OEUK members before the construction of offshore wind farms. This is expected to allow operators and the supply chain to share lessons learned with developers and will help ensure that offshore wind infrastructure is designed for decommissioning at the outset. The aim is that this will create a sustainable

opportunity for the supply chain to continue to carry out decommissioning activities beyond oil and gas, particularly given that there are at least 209 offshore wind farms expected to be constructed over the next decade.

- *Collaboration and campaigns*

Similarly, compressed schedules and shared campaigns can create opportunities to share costs and to create economies of scale. For instance, execution efficiency across the operator and supply chain communities enabled a 25% cut in costs, despite the difficult operating environment.

During the next decade, it is expected that there will be a reduction in the average costs of subsea and exploration and appraisal (E&A) well decommissioning as rig supply rises. Multi-operator well decommissioning campaigns are a proven method of reducing costs and emissions and are becoming mainstream across the UKCS and in the wider North Sea.

- *Dismantling and reuse opportunities*

Data from OEUK shows that over the next decade there will be an increase year on year on topsides, substructures and subsea infrastructure tonnage coming ashore, reaching a peak of over 250,000 tonnes in 2027; and this figure does not include well decommissioning, pipelines or concrete mattresses. This represents dismantling and reuse opportunities for organisations. An example of reuse is the well casings supplied by John Lawrie, which have been used as piling posts in the foundations of Aberdeen's P&J Live.

In addition, the recovery of concrete mattresses is expected to remain consistent until 2029 and could present an opportunity for a dedicated mattress removal campaign on the UKCS. Supply chain organisations that provide waste services to the decommissioning industry can provide reuse options for concrete mattresses including aggregates being used for construction; and other more unexpected purposes such as flooring for agricultural sheds. The reuse of the plastic rope is also an opportunity for innovative solutions from industry.

- *Energy Project Levy*

Uncertainties surrounding the Energy Profits Levy (“EPL”) (i.e. the 35% energy profits levy applying to profits from UK oil and gas activities) are expected to have an effect on future decommissioning spending. In particular, the extension of its application from 2025 to March 2028 has created a significant barrier to investment, as evidenced by TotalEnergies, the French energy giant, announcing at the end of 2022 a 25% cut in investment in the UK North Sea in response to the expanded EPL. It is likely that other energy companies will implement similar cuts.

Looking ahead

Decommissioning will cost around £20 billion in the period 2022-2031, and this will undoubtedly provide the UKCS supply chain with a steady stream of decommissioning work in the foreseeable future. However, increased competition for resources and assets with other industries such as offshore wind, together with overseas demands for the skills and expertise generated in the UK, will need to be addressed in order to ensure the decommissioning sector continues to operate efficiently and effectively.

On the legal/contractual side, with the expected increase in cross-collaboration between industries as well as compressed schedules and shared campaigns, the agreements that will be entered into between different counterparties (e.g. between the decommissioning contractor and the operator, and/or the decommissioning contractor with its subcontractors) will need to reflect the commercial agreed risk allocation. This will include careful negotiation and drafting of, for instance, the suite of indemnities, as well as provisions in relation to duration and cost of works, and any limitation of liability caps. In light of this, it may be beneficial for parties for all parts of the decommissioning sector to collaborate on producing a standard form decommissioning contract, which would streamline the contract negotiation process, and thereby reducing associated time and costs.