Decommissioning in the UKCS: where are we now?

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The UK industry has been working on decommissioning projects for decades, with the Petroleum Act 1998 (as amended by the Energy Act 2016) governing decommissioning on the United Kingdom Continental Shelf ("UKSC")'s offshore oil and gas installations. These regulations legally oblige operators to leave marine environments clean and safe once their production activities cease, which entails removing certain of their platforms, pipelines and wells.

While this is a costly and complex task, commanding significant planning and preparation, decommissioning can also be viewed as a huge opportunity for a developing supply chain in the UK which will service this process domestically and could in the future become global leaders in the space. Indeed, the North Sea Transition Authority (the "NSTA") estimates that £40 bn will be spent on decommissioning by 2040 with 50% of that spent on well decommissioning (see UKCS Decommissioning Cost and Performance Update 2024). According to the NSTA's Chief Executive, Stuart Payne, there are 1,500 wells that need to be decommissioned by 2030 (speech at Offshore Energies UK's annual conference on 17 September 2024).

Decommissioning is also an important part of the energy transition with some of the existing offshore infrastructure being repurposed for future offshore wind, hydrogen and carbon capture utilisation and storage (CCUS) projects.

However, opportunities are usually preceded by challenges, and we provide an update on some key challenges that is facing decommissioning in the UKCS in the remainder of this article.

Slow Progress

Progress on decommissioning has been slower than anticipated. By way of example, according to the NSTA, in 2023, although £2bn was spent on decommissioning (as originally projected), only 70% of planned decommissioning activities were achieved. Mr Payne also remarked in his speech that 500 wells have already missed their deadline for decommissioning.

This is in part due to deferral of projects by operators. There are a number of reasons why an operator would seek to defer their decommissioning obligations:

1. to maximise recovery in a difficult fiscal and political operating environment (created by the windfall tax and no new oil and gas licences) with energy security also a factor;
2. the perception that decommissioning projects will become more efficient and cost effective over time;
3. the expectation that pre-existing North Sea infrastructure may become useful for offshore wind, hydrogen power or carbon capture and storage projects;
4. the hope that current policy may change with more willingness in the future from regulators to permit leaving existing structures in place; or
5. simply, to save expense.

There is a mix of perception, hope and expectation among these reasons, but the reality is that decommissioning is becoming more expensive and more challenging.

Costs and Challenges

According to the NSTA, the projected costs of decommissioning through to 2032 has increased from £21bn to £24bn and the expectation is that it will rise further still. Inflationary pressures seen elsewhere have contributed to the increase, but costs are also being driven upwards by the fragile nature of the supply chain, including issues around availability of critical equipment and personnel.

Operators in the UKCS have historically favoured awarding short-term seasonal contracts, which prove far less profitable for contractors. In response, contractors have chosen to market their fleets towards more lucrative opportunities overseas and pre-emptively sell or even scrap their rigs. This has resulted in a shortage of available rigs in the UKCS to carry out well decommissioning work in the basin pushing up rates. In terms of other critical equipment, such as heavy lift vessels, the decommissioning sector is facing competition from other sectors such as offshore wind.

Concerns also surround a possible skills shortage. The UK-based workforce in this sector was once well numbered and knowledgeable, but many have been lured away to work in other industries. The energy transition has more generally influenced those entering the workforce, with a next generation in oil and gas exploration seemingly absent. Those who do remain working in this field are not necessarily tied to the UK either, they can take their experience elsewhere.

What Happens Next?

If operators do not constructively engage with the UK supply chain for decommissioning work now, they risk losing access to the expertise that exists. Conversely, if the UK can get ahead in this space, given the upcoming need for decommissioning in other regions such as the US and Australia, this could prove to be very profitable in the long term.

The NSTA’s recent acknowledgment of the need to crack down on missed deadlines and continuous deferrals, with the threat to “name and shame” through the publication of league tables of operator performance, should assist, but collaboration from key players across the industry is required to safely and efficiently tackle decommissioning in the UKSC, while also capitalizing on this commercial opportunity whilst it is still able to do so.