UK Decommissioning Sector: More Spend, Less Progress

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PRACTICES Offshore Oil and Gas, Offshore Oil and Gas Dispute Resolution

The UK decommissioning sector spent more but achieved less in 2023, according to Offshore Energy UK's recently published "Offshore Decommissioning Report 2024" ("**OEUK Report**"). In 2023, the United Kingdom Continental Shelf ("**UKCS**") experienced a 6% increase in decommissioning spend compared to the previous year; significantly less than the 37% previously forecasted. The findings of the OEUK Report are in line with many of the observations set out in our previous article (see "Decommissioning in the UKCS: Where are we now?") and we provide an update on some of the key issues below.

Cost inflation

One of the main reasons for the increased spending was the rising cost of decommissioning activities. This is illustrated by the fact that estimated well decommissioning costs for 2024-33 have risen from £10.4bn to £11.7bn and there has been a notable rise in the average cost per well. For instance, the forecast cost of decommissioning the average exploration and appraisal ("**E&A**") well has risen from £4.36million in 2021 to £5.33million in 2023.

In response to the potential impact of cost inflation on the sector, the North Sea Transition Authority has recently called for more cooperation between operators and the supply chain to find ways to reduce costs and improve efficiency (see UKCS Decommissioning Cost and Performance Update 2024).

Political uncertainty

Another factor that affected the decommissioning sector was the unfavourable fiscal regime in the UK and the uncertainty associated with a general election cycle. As expected, the new Labour government increased the rate of the energy profit levy to 38%, bringing the headline rate of tax on upstream oil and gas activities to 78% and extended it application until 31 March 2030. This increased the financial burden on the sector and likely discouraged investment and planning both presently and likely in the future.
Reduced new production and uncertainty over future production

In 2023, the UKCS saw more wells being decommissioned than being drilled for production. This reflects the decline in new production and the uncertainty over future production in the UKCS, which depend on various factors such as commodity prices, licence rounds, and political stability.

However, despite well decommissioning activity surpassing well production activity, 2023 saw a decrease in well decommissioning activity for the first time since the 2020 pandemic, with only 126 wells decommissioned compared with the forecasted 210. One suggestion is that operators may be deferring decommissioning activities in the hope that they will become cheaper to undertake over time.

Competition for resources

The decommissioning sector also faced fierce competition for resources and personnel from other sectors, especially offshore wind. The demand for heavy-lift assets, such as rigs and vessels, exceeded the supply, which drove up costs and slowed down work. According to data from OEUK, this year's forecast shows a higher value for removing a tonne of materials; more than 40% higher for topsides and over 35% more in the case of substructures. More cross-sectoral collaboration and sharing of work programmes, assets and skills could help to minimise clashes and maximise efficiency.

Volatile commodity prices

The OEUK Report highlights the impact of volatile commodity prices on the decommissioning sector, which may lead to significant hikes in forecasted decommissioning costs. This uncertainty affects the profitability and viability of the sector and has a dampening effecting on decommissioning activity.

Opportunities and outlook

The OEUK Report forecasts that the annual spending on decommissioning in the UKCS will remain above £2.4bn for most of the decade, and that decommissioning will account for a third of total oil and gas expenditure by 2030. In particular, the high tax rate on the sector could lead to earlier than expected shutdowns of production, which would increase the number of wells that need to be decommissioned earlier.

Decommissioning continues to play an important role in the energy transition meaning that the UK has a unique opportunity to become a global leader in this field. In order to achieve this, OEUK is clear that the decommissioning sector should pursue more collaboration, innovation and stability from all stakeholders, including operators, the supply chain and the government. How this is achieved in practice without appropriate fiscal and other commercial incentives remains to be seen.