



Department
of Energy &
Climate Change

The Rt Hon Amber Rudd MP
Secretary of State

Mr Alex Chisholm
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1 March 2016

Dear Mr Chisholm,

Energy Bill – Competition Issues

Thank you for your letter of 3 December 2015, regarding the Energy Bill currently before Parliament and your recommendations in relation to competition in the oil and gas industry in the UK Continental Shelf. I am responding within the 90 day period stipulated in the Government's response to the consultation on the Government's strategic steer to the Competition and Markets Authority, published in December 2015.

Among the key elements of the Energy Bill are the measures we are taking to maximise the economic recovery of offshore oil and gas, by providing the Oil and Gas Authority (OGA) with the powers it requires to be an effective regulator and steward of the industry. Sustained low oil prices have highlighted the need for swift action to safeguard this vital industry, and I am pleased to note that the CMA understands the Government's objectives in establishing the OGA as an independent regulator, and the benefits to competition that should come from its principal objective of maximising economic recovery, the provision of a stable and predictable regulatory regime and the pursuit of innovation.

One of the central recommendations of the Wood Review was a focus on increased collaboration between industry players, to be facilitated and regulated by the OGA. The OGA will encourage industry to collaborate in efficiently developing and sharing new and existing infrastructure, in developing new technologies and in driving down the full life-cycle costs of recovering oil and gas from the UK Continental Shelf. This will give us the best possible chance of maximising the value to the UK of the remaining North Sea reserves, whilst also driving efficiencies within the industry.

The Government recognises the benefits to the UK from having, and maintaining, a highly competitive oil and gas industry, and remains fully aware of the need for the OGA and industry to act within the limits imposed by competition law when seeking to collaborate. While noting the potential benefits, your letter - and the recommendations made in the attachment - draw attention to the potential risks to competition of increased collaboration among companies. We understand these concerns and, as the OGA becomes fully operational as a regulator and asset steward, propose to take the actions set out below in response to your recommendations.

As part of DECC's sponsorship arrangements, we will be seeking assurance from the OGA that they are taking competition issues into account as they finalise their internal

structures and governance arrangements, and that these arrangements incentivise the right behaviours and provide the necessary controls. This will be monitored as part of our overarching sponsorship arrangements and through the OGA Board.

In light of your letter, and to ensure that this issue is given sufficient visibility, we have included specific reference in the Maximising Economic Recovery of UK Petroleum (MERUK) Strategy, currently before Parliament, to the safeguard that no obligation imposed by the Strategy permits or requires any conduct which would otherwise be prohibited by legislation including that relating to competition law.

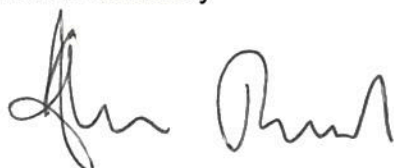
More generally, the Government and the OGA will, through policies, guidance and consultation as appropriate, take steps to ensure that any agreements with which it is involved do not include anti-competitive elements, and that exchanges of sensitive information which would be prohibited by competition law are avoided. As you acknowledged, there are a number of safeguards already in place in the Energy Bill on the latter. For example it places clear restrictions on the onward disclosure of information gathered by the OGA, and proposals for publishing information after a specified confidentiality period will be subject to consultation and set out in regulations subject to the scrutiny of both Houses of Parliament. We will bear in mind the risks you have highlighted in developing these regulations.

Moreover, as part of the Sponsorship arrangements we will be seeking assurance that the OGA is considering the competition law and the wider competition aspects of proposed agreements or collaborations with which it is involved. The OGA would not proceed with any agreements which unduly affected competition or did not comply with legal requirements, noting that the companies themselves are also obliged by law to consider these issues. The OGA will continue to remind industry of their obligations and encourage compliance with competition law.

The OGA will also continue to foster and encourage competition within the oil and gas industry, primarily through the licensing rounds which are run as a competitive process. The OGA will also consider how other competition and market incentives could be used to contribute to maximising economic recovery at other stages of the development and exploration cycle. To this end, we welcome the very constructive dialogue that we - both DECC and the OGA - have had with officials from the CMA during implementation of the Wood Review Recommendations. I understand that the "Competition Law and Collaboration" event hosted by the OGA in Aberdeen last year was well received and that the CMA's contribution to it was greatly appreciated by the OGA and industry.

We would welcome this dialogue continuing, not least to assist in raising awareness of competition law in the industry and in fully understanding its implications for the new regulatory environment. Your offer of continued assistance in the OGA's work, which might include the provision of opinions on competition issues in line with your published approach, is also welcomed.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Amber Rudd', written in a cursive style.

AMBER RUDD