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Mr. Matt Wieckowski,
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30th September 2011

Dear Matt,

EMR: Consultation re a Capacity Mechanism

Thank you for the opportunity to respond to this consultation. While Oil & Gas UK is not directly involved in the electricity market, we are obviously very interested in the gas market and, because of the links between the two, we responded to the earlier, full consultation about EMR.

As we stated in that response in March of this year:

"The market for gas in GB has become an international model, respected for its open-ness, good liquidity and competitive pricing. As mentioned above in the Introduction, investors have responded magnificently in recent years to the need for new infrastructure, as our own production has declined. Investment on such a scale would probably not have happened without an open and liquid market."

Now that the White Paper, CM 8099, has been published, it has served to confirm our view that the proposals for reform pose significant risks to the liquidity of the power market which, in turn, are likely to have adverse consequences for the gas market, given the close connection between the two. Any reduction in liquidity would be most unwelcome, with implications for future investment in, for example, new gas storage projects.

Because the role of gas is likely to become more variable in future as a result of the increasing quantity of renewable sources of electricity generation, flexible supplies such as gas storage will become ever more important to security of supply than they are now. A recently published paper by Howard Rogers of the Oxford Institute for Energy Studies has concluded in simple, if somewhat

inelegant terms, "want wind, need gas" (see "The Impact of Import Dependency and Wind Generation on UK Gas Demand and Security of Supply to 2025":

<http://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/08/NG-54.pdf>).

Furthermore, there are the effects of the introduction of a series of measures originating in the EU to be considered: REMIT, the review of MiFID and MAD and the forthcoming Energy Roadmap 2050. While the details of all of these are currently far from clear, enough is known about REMIT to raise doubts about its consequences for market liquidity.

Oil & Gas UK remains most concerned that, as we concluded in March, "The various measures proposed are likely to undermine the markets which have served GB so well in recent years."

Yours sincerely,



Energy Policy Manager.