

30 September 2004

Mr A MacFaul  
Head of Government Affairs  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr. MacFaul,

**Ofgem's Three Year Strategy, 2005-8**

Thank you for the letter of 5<sup>th</sup> August 2004 from Sir John Mogg addressed to our Chief Executive, Malcolm Webb. He has asked me to reply on behalf of UKOOA.

There are four main points which UKOOA would wish to have considered, they are inter-linked and all have a bearing on security of supply:

1. *The need to maximise the recovery of oil and gas reserves from the UK continental shelf.* Ofgem will be aware of the work of Pilot, the government-offshore oil and gas industry forum which aims to maximise such recovery and ensure the production of 3 million barrels of oil equivalent per day (i.e. oil and gas, but measured as if it were all oil) in 2010. Two major pieces of work by UKOOA, with DTI's assistance, are helping to underpin these objectives: the work on "brownfields" (those already in production) and on "stranded" gas reserves (those whose poor quality will not meet the requirements of GS(M)R without significant blending).
2. *The continued encouragement of investment in new infrastructure.* We have made the point about the need for infrastructure investment, both nationally and internationally, many times during recent years and so we were pleased to read about Ofgem's decisions with respect to new supplies of LNG to the UK.
3. *The need to allow for greater volumes of imports.* This follows on from point 2. It is clear to everyone that the country will become increasingly dependent on imports during the next 20 years, even if UKOOA believes that it need not happen as quickly as some commentators have indicated. Nonetheless, not only is the trend evident from the new projects already in hand, but it will be important in terms of diversity and, therefore, security of supply that imports of both pipeline gas and LNG are from multiple sources and are landed at various locations throughout the UK, as is already happening.
4. *To balance Regulation with Liberalisation.* The United Kingdom has a highly liberalised gas market which will act to match supply against demand as outlined above. Inappropriate regulation could constrain the market and hide the signals needed to encourage new investment.

We are grateful to you for your request and trust that the above points are helpful, even if only to reinforce previous messages.

Yours sincerely,



Michael Tholen,  
Economics & Commercial Director.