



Department  
of Energy &  
Climate Change

Peter Davis OBE FRSA  
Director-General  
British Plastics Federation  
BPF House, 6 Bath Place  
Rivington Street, London  
EC2A 3JE

The Rt Hon Edward Davey MP  
Secretary of State

Department of Energy & Climate Change  
3 Whitehall Place  
London  
SW1A 2AW

[www.gov.uk](http://www.gov.uk)

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*Peter Davis,*

Thank you for your letter dated 29 January, about energy supply to industry over the next decade. I apologise for the delay in replying.

In the face of power station closures, the Government published its Energy Security Strategy. This sets out how the Government will ensure that whichever path the market takes, our energy system will remain secure in the short, medium and longer term. It sets out the measures being taken by Government to ensure that the UK energy sector receives the substantial investment required to replace its closing infrastructure.

The GB gas market is widely regarded as one of the most liquid and best functioning in the world. A recent assessment by Ofgem for DECC in November 2012, found that the GB gas market functions well, and only in extreme circumstances is there a risk of a loss of supply to small businesses and domestic consumers. Ofgem considered a range of interventions, some of which could incentivise new storage capacity and reduce the risk of physical supply outages and/or excessive price shocks. DECC is currently considering costs, benefits and risks of some of these interventions, and we will publish our decision on whether there is a case for intervention over and above Ofgem's work to sharpen security of supply incentives in Spring 2013.

The Government agrees that gas storage plays an important role in balancing gas supply and demand. However, while important it is only one among a number of flexibility tools available to the market, alongside imports via pipeline and LNG, our own production and demand-side response. Forecasted changes to the GB market (increasing import dependency, the decline of domestic swing supplies, and the expected increase to demand volatility as gas plays a larger back-up role to intermittent wind generation in the power sector) will increase the overall need for flexible supplies. This is likely to mean the UK will need additional storage capacity to balance the system in future years.

Even though gas demand in Germany and the UK is roughly equal, to make comparisons between UK and German levels of gas storage is misleading. Amongst the reasons for this is that the UK has been able to access flexible supply from the North Sea, and has delivered a 5-fold increase in import capacity including direct pipelines to Norway, interconnectors with the Continent and 3 new LNG terminals. In contrast, Germany has very little domestic gas production, no LNG import capability and a narrow supply base. The UK has a single integrated gas network, whereas it is more difficult to move gas around Germany to match supply to demand due to lower market liquidity and interconnection.

You are right to highlight the possible potential for shale gas. It is important that we assess this potential and DECC recently set up the new Office for Unconventional Gas and Oil. The Office joins up responsibilities across Government, provides a single point of contact for investors and will ensure a simplified and streamlined regulatory process. In addition, as you noted, the Treasury has opened discussions with industry on the appropriate structure of a fair tax regime for future shale gas production, and DECC will consult on how its licensing regime could be modified to support the particular characteristics of shale gas developments. DECC will also consult on an updated Strategic Environmental Assessment with a view to further onshore oil and gas licensing.

In response to your second proposal, the Government is clear on the urgent need for new nuclear investment as part of our low-carbon energy mix. But this needs to be on the basis of rigorous and transparent safety, security and environmental regulation. We remain firmly committed to ensure that the conditions are right for investment in new nuclear power in the UK.

The new nuclear programme is seeing significant progress. In the last quarter of 2012 alone we saw the successful sale of Horizon Nuclear Power to Hitachi Ltd, the granting of the first nuclear site licence in 25 years at Hinkley Point C, regulatory approval of the EPR reactor design, and the beginning of site characterisation work at Moorside. Industry had set out its plans to develop around 16GW of new nuclear power in the UK; EDF's planning application envisages Hinkley Point coming into operation in late 2019.

You state in your third bullet point that although the Government supports increasing Energy from Waste it must provide more political leadership on its benefits. The Government's primary goal is to move waste up the hierarchy. Where possible waste should be prevented, reused or recycled with only the residual waste going to energy recovery. Within this context, the Government supports efficient energy recovery from residual waste which can deliver environmental benefits, reduce carbon impacts and provide economic opportunities. Our aim is to get the most energy out of waste, not to get the most waste into energy recovery.

The UK Bioenergy Strategy, published last year, identified the biomass portion of residual waste to be an optimum use of biomass, where it maximises carbon and cost effectiveness, and where it is consistent with the waste hierarchy. DECC supports electricity and heat from the renewable content of energy from waste from a range of energy from waste technologies. The Renewable Heat Incentive and the Renewables Obligation provide incentives including for the use of gasification, anaerobic digestion and energy from waste with combined heat and power. Further support for development of these emerging technologies across Government include the Energy Technology Institute £13 million gasification competition, £80 million financing available under the Green Investment Bank for waste technologies, and the £10 Million Anaerobic Digestion loan fund, administered by Waste Resources Action Programme.

yours,



EDWARD DAVEY