14 March 2011

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

Dear Messrs Kenrick, Brack, Brearley and Clay,

RE: Significant changes in the global LNG industry and the impact on the UK

Last Thursday (10th March 2011), we submitted our response to the Electricity Market Reform Consultation Document, highlighting the gas industry's concern about the negative signals on the long term future for gas as set out in the EMR proposals. The first of our Key Messages in that submission was to the effect that:

> *"More investment in gas plant, related networks and flexible storage will be needed to provide base and peak load supply to the system given the strong likelihood of delays in the implementation of new low carbon generation, the intermittent nature of wind power and the need to replace winter coal-fired generation that will come offline in 2016 as part of the Large Combustion Plant Directive (LCPD)."*

The Japanese earthquake and tsunami are unspeakable tragedies in both human and economic terms for that country. We at Gas Strategies also recognise however both (i) the immediate effect which this is already having on the LNG market in the Pacific Basin as Japan's electricity fuel mix replaces nuclear with gas, and (ii) the medium term impact which this is likely to have globally on gas demand and the role of gas fired-generation, as the safety case for existing and new build nuclear is reassessed.

While we welcome today's confident statements from NII on the UK's existing nuclear establishments, we also note it's keenness to see the outcome of the report which will be prepared by the Chief Nuclear Inspector on the implications of the situation in Japan. The NII's statement that *".. this [report] will be of great significance in ensuring that lessons are learned effectively from the ongoing events."* unfortunately adds to existing significant concerns regarding the timing of any future nuclear new build coming on stream, and indeed the future of life extension for existing stations.

The future role of nuclear in the evolution of the generation mix throughout the developed world has been thrown into question by the events of the past days. Whether this will be a delaying or step-change event remains to be seen. Whichever is the case the strategic role of gas has changed for the present at least and the UK is challenged to respond in order to secure its rights to the necessary gas, infrastructure and generation equipment as a bridge and possible longer term generation solution. This requirement was amply demonstrated in our submission.

We will be pleased to discuss with DECC how we see these challenges from both a global and national perspective. We believe that a strong and confident policy position is now imperative in the global competition for resources.

Yours faithfully

For Gas Strategies Group Limited

Patrick Breen
Chief Executive

GAS STRATEGIES