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Ian McPherson
Director - Environment, Health
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By email

23 March 2010

Mr Ian Marlee
Project.discovery@ofgem.gov.uk

Dear Mr Marlee,

OFGEM Consultation: Project Discovery – Options for delivering secure and sustainable energy supplies

Thank you for the opportunity to comment on this consultation. UKPIA is the trade association representing the oil refining and marketing industry in the UK, and our members own and operate all the major crude oil refineries and supply some 90% of the inland market in oil products, about a third of UK primary energy demand. UKPIA is an active member of the Emissions Trading Group and contributed to the ETG study *Delivering low carbon investment* of December 2009. We also attended Ian Marlee's presentation to Emissions Trading Group's WG4 on 25th February.

In line with most ETG members UKPIA supports the EU Emission Trading Scheme, and does not support application of a minimum carbon price to those UK industries which are exposed to international competition (ie the great majority of participants in the EU ETS), especially if such a minimum carbon price is to be applied on a UK-only basis. **To the extent that a minimum carbon price is an essential part of your policy packages A, B, and C we are strongly opposed to its application beyond the domestic power and gas industries, because it would potentially damage the ability of industries exposed to international competition to continue to attract necessary investment and will lead to investment leakage, import substitution, and hence carbon leakage.**

The ETS approach is supported because it delivers a given level of EU environmental ambition at minimum cost. It may be the case that this is not aligned with member state goals, especially where these relate to sector-specific goals, eg decarbonisation of UK electricity. Such goals need to be addressed by sector-specific policies, which should not impact on other sectors and should not damage international competitiveness.

We have the following general comments to make on your consultation:-

1. There is a need to recognise that most participants in the EU ETS produce products which are relatively easy to ship and store, unlike electricity, and are therefore exposed to international competition and import substitution. This exposure does not apply to large-scale domestic power generators or to distribution of natural gas.

2. UKPIA does not have a view on whether UK electricity and gas industries need a minimum carbon price, however we are clear that oil refineries do not need a minimum carbon price and certainly not one that is additional to the EU ETS and other EU policies.
3. If OFGEM want to propose a minimum carbon price for certain UK industries, then this needs to be addressed by UK-only policies, and must be carefully targeted to avoid any impact on internationally exposed industries.

We hope these comments are helpful,

Yours sincerely,

Ian McPherson