

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT PETROLEUM (TRANSFER OF
FUNCTIONS) REGULATIONS 2016

Thursday 7 July 2016

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Monday 11 July 2016

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The Committee consisted of the following Members:

Chair: JOAN RYAN

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|---|--|
| † Ali, Rushanara (<i>Bethnal Green and Bow</i>) (Lab) | † McFadden, Mr Pat (<i>Wolverhampton South East</i>) (Lab) |
| † Day, Martyn (<i>Linlithgow and East Falkirk</i>) (SNP) | † Mc Nally, John (<i>Falkirk</i>) (SNP) |
| † Fernandes, Suella (<i>Fareham</i>) (Con) | Miller, Mrs Maria (<i>Basingstoke</i>) (Con) |
| † Field, Mark (<i>Cities of London and Westminster</i>) (Con) | † Murray, Mrs Sheryll (<i>South East Cornwall</i>) (Con) |
| † Gardiner, Barry (<i>Brent North</i>) (Lab) | † Philp, Chris (<i>Croydon South</i>) (Con) |
| † Heaton-Harris, Chris (<i>Daventry</i>) (Con) | Sherriff, Paula (<i>Dewsbury</i>) (Lab) |
| Hodge, Dame Margaret (<i>Barking</i>) (Lab) | † Smith, Julian (<i>Skipton and Ripon</i>) (Con) |
| † Hollinrake, Kevin (<i>Thirsk and Malton</i>) (Con) | † Sunak, Rishi (<i>Richmond (Yorks)</i>) (Con) |
| † Leadsom, Andrea (<i>Minister of State, Department of Energy and Climate Change</i>) | Glenn McKee, <i>Committee Clerk</i> |
| † Lynch, Holly (<i>Halifax</i>) (Lab) | † attended the Committee |

Fourth Delegated Legislation Committee

Thursday 7 July 2016

[JOAN RYAN *in the Chair*]

Draft Petroleum (Transfer of Functions) Regulations 2016

11.30 am

The Minister of State, Department of Energy and Climate Change (Andrea Leadsom): I beg to move,

That the Committee has considered the draft Petroleum (Transfer of Functions) Regulations 2016.

It is a great pleasure to serve under your chairmanship for the first time, Ms Ryan. I am pleased to open the debate on the regulations, which will transfer certain functions relating to the licensing and taxation of oil and gas from the Secretary of State for Energy and Climate Change to the Oil and Gas Authority. With the recent debate on the Energy Act 2016 no doubt still fresh in hon. Members' minds, I am sure that most will be familiar with the background to the establishment of the OGA and Sir Ian Wood's review into maximising the economic recovery of petroleum from the UK continental shelf. However, for the sake of coherence, I will outline briefly where we have got to.

The benefit of the oil and gas industry to the UK is not in doubt: it has extracted around 43 billion barrels of oil, paid more than £330 billion of taxes and supported many hundreds of thousands of jobs. However, as one of the most mature regions in that global industry, the UK now faces new challenges, with remaining reserves increasingly dispersed and more difficult and potentially expensive to exploit. Notwithstanding that and the additional pressures resulting from low prices, great value can still be extracted. The Wood review recommended that delivering that value would require a new approach and the focused attention of a new independent regulator and asset steward. In response, the Government legislated to establish the principle of "maximising economic recovery" or MER UK, and have set out a strategy to deliver that. The industry and the OGA are now required to act in accordance with that strategy when going about their business.

The OGA has been established as an Executive agency of the Department of Energy and Climate Change and has made great progress. The successful passage of the Energy Act enables the OGA to be set up as a Government company and empowered with a broader range of tools to meet the challenge of MER UK, as envisaged by the Wood review. A central part of the establishment of the OGA is the transfer to it of essential functions currently exercised by the Secretary of State.

Hon. Members may recall that schedule 1 to the Energy Act provides for the transfer of the majority of those functions, including some relating to offshore oil and gas infrastructure as well as the licensing of carbon dioxide and gas storage. However, it was decided that certain core functions in relation to petroleum licensing and taxation would not be transferred by that Act, due

to interdependencies with the new devolution settlements for Scotland and Wales, as outlined in the Scotland Act 2016 and the Wales Bill respectively. Specifically, both those settlements include provision to devolve such functions in the onshore area, and that requires us to amend the same part of the Petroleum Act 1998. Due to the complexities caused by the sequencing of those measures, it was decided that we would transfer those specific functions via regulations under the Energy Act to allow greater flexibility. The regulations seek to effect that transfer.

The rationale for transferring those functions to the OGA is the same as for transferring the functions transferred by the Energy Act: the effective establishment and operation of the OGA as regulator and asset steward of the UK continental shelf. The only difference in this case is the legislative vehicle by which the functions are formally transferred. It is worth noting that, as with the functions transferred by the Energy Act, the functions that will be transferred by the regulations are all currently being exercised by the OGA in its capacity as an Executive agency of the Department of Energy and Climate Change. However, once the OGA is established as a Government company, it will be legally distinct from the Department. In order to continue to carry out its functions, they will need to be formally transferred to it.

In conclusion, the regulations make relatively minor amendments to legislation governing petroleum licensing and taxation to enable the OGA to continue its important work of regulating the oil and gas sector and to ensure a smooth transfer of functions to Scottish and Welsh Ministers in due course. I commend the regulations to the Committee.

11.35 am

Barry Gardiner (Brent North) (Lab): Ms Ryan, it is always a delight to see you in the Chair. Some hon. Members from the Minister's party have encouraged me to detain her in Committee for as long as is reasonably possible this morning. In respect of their wishes, I have searched back through the Petroleum Act 1998, section 3: licences to search and bore for and get petroleum, and section 4: licences for further provisions. I have gone to the Oil Taxation Act 1975, section 3: allowance of expenditure (other than expenditure on long-term assets and abortive exploration expenditure), and to schedule 2, which talks about the management and collection of petroleum revenue tax returns by participators. I am sad to say that I have not been able to find any cause to detain the Committee longer.

My party has agreed with the findings of Sir Ian Wood's review. The OGA's new powers and oversight to ensure that decommissioning is used to best advantage in the North sea seems to us entirely right. Decommissioning should not operate in the short-term interests of those involved, but in the longer-term interests of the co-operative use of the infrastructure. That is a point I wish to make particularly for the benefit of not only those who are involved in future production in more marginal fields over this coming period, but the future possible use of the North sea as one of the world's finest repositories for carbon capture and storage.

I regret that the Government have abandoned their funding for the development of the CCS programme. I think that is a devastating shame. We have the finest

repositories in the world and they are going to be there awaiting CCS technology. Although, in terms of our own emissions reduction capacity and our own climate commitments, CCS is not critical for our infrastructure in the immediate future, it could have been marketed across the world through the technology and skills that Britain could have exported. For that reason, I regret the loss of funding. However, it does not give me cause to detain the Committee longer or to press the matter to a vote.

11.38 am

John Mc Nally (Falkirk) (SNP): I am happy to agree and am satisfied with the progression of the legislation. I think the speech by the hon. Member for Brent North was excellent; he has obviously done a lot of research for what seems very little reward. We are happy and satisfied with the transfer of powers going forward.

11.39 am

Andrea Leadsom: I am delighted that there is unanimous agreement. I am grateful to hon. Members for their contributions and particularly grateful to the hon. Member for Brent North for his thorough research. That is always important.

As we have discussed, the regulations are largely procedural in nature, but they are an important central part of the establishment of the OGA as an arm's length regulator and steward of the UK continental shelf. The transfer of responsibility from the Secretary of State to the OGA is essential if the OGA is to continue to exercise the functions it has been set up to deliver once it is formally established as a Government company.

Question put and agreed to.

11.40 am

Committee rose.

