House of Commons
Welsh Affairs Committee


First Special Report of Session 2014–15

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The Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for Wales (including relations with the National Assembly for Wales).

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at Welsh Affairs Committee - UK Parliament

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Marek Kubala (Clerk), Anwen Rees (Committee Specialist), Shane Murray (Senior Committee Assistant), Baris Tufekci (Committee Assistant), and Jessica Bridges-Palmer (Media Officer).

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First Special Report

The Committee published its First Report of Session 2014–2015 *Energy generation in Wales: Shale Gas* on 16 June 2014. The Government Response was received by the Committee on 27 August 2014 and is published as an Appendix to this Special Report.

Appendix: Government Response

1. The UK Government welcomes the Welsh Affairs Select Committee’s report *Energy generation in Wales: Shale Gas*. We value the opportunity to work together with the Welsh Government on this important issue. Both Governments have engaged throughout the process of the Select Committee by submitting oral and written evidence. We set out below the UK Government’s response to the Committee’s recommendations.

2. As we have previously stated in our written evidence, the UK Government believes that shale gas has the potential to provide both Wales and the UK with greater energy security, growth and jobs. The UK Government has committed to ensuring that a world-leading framework for investment is in place so that if the conditions are right the industry can prosper. We are encouraging safe and environmentally sound exploration to determine how much of this potential can be realised.

3. We welcome the conclusion from the Committee that it is vital that the UK identifies new sources of gas to safeguard the UK’s security of supply. As we identified in our previous evidence gas will continue to be a crucial part of our energy mix to 2030 and beyond. The UK Government’s Gas Generation Strategy also makes clear that gas will continue to play a major role in the UK electricity mix over the coming decades. With UK offshore gas supplies declining the UK has become increasingly reliant on imported gas. In 2003, we were a net exporter of gas. Now, we are a net importer through pipelines from Norway and Holland – and Liquefied Natural Gas (LNG), mostly from Qatar. By 2025, if we continue at our current rate, we expect to be importing close to 70% of the gas we consume. This demonstrates the importance of the UK making the most of its indigenous natural resources.

4. We also welcome the Committee’s focus on the impacts for communities, both economic and environmental. Gas produced in the UK, just like renewables and new nuclear, supports jobs and tax revenues for our society. As the Committee’s report notes, a report by the Institute of Directors titled ‘Getting Shale Gas Working’ published in May 2013, estimated that UK investment could peak at £3.7 billion a year and support 74,000 jobs in the oil, gas, construction, engineering and the chemicals sectors. The UK Onshore Operators Group (UKOOG), the industry body, commissioned a report by EY on the shale supply chain in April 2014 based on the IoD high case scenario that identified many significant opportunities for UK business as part of the same scenario. For example, it projects a need for £2.3 billion worth of steel, around 50 drilling rigs and £2 billion worth of proppant (sand).
5. The UK has a strong regulatory system which provides a comprehensive and fit for purpose regime for exploratory activities, but we want to continuously improve it. There are regulations in place to ensure on-site safety, prevent water contamination, air pollution and mitigate seismic activity. The Office for Unconventional Gas and Oil (OUGO) was established in DECC in May 2013 and tasked with working across Government to develop a safe, environmentally sound and effective unconventional gas and oil industry. The UK Government has taken a number of actions to encourage shale gas production, including:

- In the Autumn Statement 2013, we introduced the most competitive tax regime in Europe for shale gas. Operators or potential operators have the regulatory and fiscal environment they need to enable developments. This reduces the tax rate on a portion of a company’s profits from 62% to 30%.
- The Department for Communities and Local Government (DCLG) has published planning guidance that clarifies the interaction of the planning process with the environmental and safety consenting regimes. Similar guidance has been issued by the Minister for Housing and Regeneration in the Welsh Government.
- The UK Government recently launched the 14th onshore licensing round which opened the bidding process for companies seeking licences to explore for onshore oil and gas.
- DECC has published Environmental Risk Assessment (ERA) guidance and a Regulatory Roadmap setting out all the regulation that applies to shale operations at the exploration stage.

6. We recognise the Committee’s identification of traffic and noise impacts, seismic risk and waste water management as key issues for the public, and set out our response below. The UK Government is clear that developing shale gas and oil will not come at the cost of public health or the environment. In June 2012 the Royal Academy of Engineering/Royal Society independent review of the scientific and engineering evidence on risks associated with UK shale gas development concluded: “the risks can be managed effectively in the UK, if operational best practices are implemented and enforced through regulation.”

Public Health England’s final report of June 2014 evaluated available evidence on issues including air quality, radon gas, naturally occurring radioactive material, water contamination and waste water. They concluded that “the potential risks to public health from exposure to the emissions associated with shale gas extraction will be low if the operations are properly run and regulated.” The UK Government believes that the UK has a strong regulatory regime for exploratory activities; we want to continuously improve it.

7. All onshore oil and gas projects, including shale gas, are subject to scrutiny through the planning system, which addresses impacts on local residents such as traffic movements, noise, working hours, etc. They will subsequently be scrutinised by the relevant environmental agency, in Wales Natural Resources Wales, and by the Health and Safety Executive (HSE).

8. We have produced a number of accessible booklets for the public which explain the potential impacts of shale gas operations and how those will be mitigated. They are available on the gov.uk website at: https://www.gov.uk/government/policies/providing-regulation-and-licensing-of-energy-industries-and-infrastructure/supporting-
We have also distributed hard copies in selected areas.

9. We will work with local authorities to support meetings between local communities, regulators and recognised experts best placed to discuss general and local concerns. OUGO is ready to engage local communities further, in partnership with local authorities in Wales and the Welsh Government.

10. These UK Government actions aim to provide operators with the regulatory and fiscal environment they need to efficiently seek the relevant permissions to explore and assess the commercial viability of the UK’s shale resource, whilst informing local communities and providing reassurance that shale gas exploration will not come at a cost to safety or the environment.

11. We recognise the Committee’s concern for the development of renewable energy technology, but emphasise that exploring for shale gas and oil is consistent with the UK Government’s action to move to a lower carbon economy. Investment in shale gas will not come at the cost of investment in renewables. Gas is the cleanest fossil fuel and therefore part of the answer to climate change, providing a cost-efficient bridge for our transition to a green future, particularly in enabling a move away from coal. To meet our challenging climate change targets we will need significant quantities of renewables, nuclear and gas in our energy mix.

12. The UK is making good progress towards meeting our EU legal commitment to provide 15% of our energy from renewable sources by 2020. Renewable electricity is supported in the UK by the Renewables Obligation (RO) at the commercial scale and the Feed-In Tariff (FIT) at the micro scale. Electricity Market Reform (EMR) will provide future support for all low carbon technologies, including renewable electricity.

13. Both the Welsh and UK Governments have recently taken action in line with the Committee’s recommendation to recognise the importance of the UK’s outstanding landscape and scenic beauty. The UK Government has recently published new planning guidance for England for unconventional oil and gas onshore activity. This guidance clarifies the strong protections that exist for National Parks, Areas of Outstanding Natural Beauty and World Heritage sites. Where applications represent major development, planning permission should be refused in National Parks, the Broads and Areas of Outstanding Natural Beauty except in exceptional circumstances and where it can be demonstrated they are in the public interest.

14. The Welsh Government issued a clarification letter to Chief Planning Officers in Wales on national planning policies that apply for onshore unconventional gas and oil development on 8 July. This letter stated that ‘minerals development should not take place in National Parks and Areas of Outstanding Natural Beauty save in exceptional circumstances’.

**Recommendations**

15. The UK Government response to each of the Committee’s recommendations is set out below in the same order they appear in Chapter 10 of the Report: Conclusions and Recommendations.
Recommendation 1 – We recommend the UK Government and Welsh Government work with commercial companies and others to provide a reliable range of estimates of shale gas available in Wales. This should be published by the end of 2014.

A Welsh Government commissioned report, “A Study of Potential Unconventional Gas Resource in Wales” was published on 25 June and is available on the Welsh Government website at:

http://wales.gov.uk/about/cabinet/cabinetstatements/2014/unconventionalgas/?lang=en

The study, undertaken by the British Geological Survey, identifies a number of geological horizons in Wales that might be prospective for shale gas but states that due to the limited geological information available, accurate forecasts of potential resources would need further research and exploration.

Recommendation 2 – We recommend both the UK Government and the Welsh Government assess the overall impact of shale gas supply on the level and mix of energy produced in Wales and the UK. This should include an examination of how the combination of nuclear, hydro-power, coal, wave and solar, alongside efforts to reduce overall energy demand, impacts upon carbon emission targets.

We are not currently in position to estimate the overall impact of shale gas supply on the energy mix in both Wales and the UK. While we recognise the importance of understanding how our energy mix may change, we are at an early stage in the development of UK shale gas and until more exploration is undertaken we do not know how much shale gas is technically and economically recoverable.

As the Committee has noted the UK is committed to reducing our carbon emissions by at least 80% by 2050 and by at least 34% by 2020 relative to 1990 levels. The UK Government is fully committed to achieving the UK carbon reduction targets and was pleased to be able to announce, in February, that we had met the first carbon budget for the period 2008 to 2012. The UK Government’s latest published projections show that we are also on course to achieve the second and third carbon budgets (to 2022), based on the projected impact of already announced and funded policies.

A number of policies are helping to put us on the right trajectory, including reforming the electricity market; supporting continued take-up of energy efficiency measures through the Green Deal and Energy Company Obligation; building a market for renewable heat through the Renewable Heat Incentive; and continuing to push for the European Union to agree an ambitious 2030 package.

A recent report Potential Greenhouse Gas Emissions Associated with Shale Gas Extraction and Use by David Mackay and Tim Stone, concluded that the carbon footprint of UK produced shale gas would likely be significantly less than coal and also lower than imported LNG. The UK Government has accepted all the recommendations of this report and undertaken to carry out a detailed scientific research programme to monitor emissions relating to shale gas exploration and production. This can help ensure that shale gas production helps us to reduce our carbon emissions whilst helping to reduce our need for imported gas.
Recommendation 3 – We encourage the Welsh Government to begin considering now how the employment opportunities presented by shale gas production could be maximised. This should include a detailed examination of the skills required by the industry and the extent that Wales already has people with those skills.

Although shale gas exploration is at the early stages in the UK, work has been done to attempt to maximise the possible economic and employment opportunities that shale gas could bring to the UK.

In April 2014 the Department for Business, Innovation and Skills (BIS) supported the production of the EY supply chain report title Getting Ready for UK Shale Gas. This report projected significant benefits for jobs and growth from a successful UK shale industry: over 64,000 jobs at peak, with more than 6,000 jobs on shale gas pads themselves. They predicted that the jobs on the sites will be highly skilled, with pay levels higher than the UK average. EY made a number of recommendations, including around skills which UK Government are considering how best to take these forward.

The Welsh Government has commissioned a report on the potential benefits to Wales of shale gas exploration and production. They expect this to be available before the end of 2014.

Recommendation 4 – In its response to this Report, we ask the Government to provide further information about how local communities in Wales will benefit, financially or otherwise, from shale gas operations in their area.

Communities that host shale gas developments should share in the benefits created. UKOOG has published its Community Engagement Charter that includes an offer of financial benefits to the community. This is alongside an equally important commitment to engage with communities early at each stage of development.

The benefits package includes £100,000 per hydraulically fractured well site at exploratory stage paid to communities and 1% of revenue at production. It’s important to stress that the 1% is from revenues, not profits, so communities have greater certainty and will be the first to benefit, particularly in early years when operators may not yet be making profit. The UK Government has welcomed the industry offer on community benefits.

Based on production and gas in place scenarios produced by the Institute of Directors (IOD) in its May 2013 Shale Gas report, the industry has estimated that community benefits under the new scheme could be worth in excess of £1.1 billion across the UK over a 25 year production timescale, with much of this benefit coming in the first 10 years. This will depend on local geology and flow rates. The IoD report in its high case scenario estimated a total of 100 production sites, equating to a potential community benefit per site in the region of £5m-£10m.

Each year, operators will publish evidence detailing how the commitments within the community benefits package are being met. The industry have committed to reviewing the community benefits agreement as the industry develops in the coming years and pledged to consult further with local communities on an on-going basis.
To ensure community benefit funds from exploration are managed and distributed independently of the operators UKOOG is partnering with UK Community Foundations (UKCF) on a pilot scheme for communities using a UK-wide network of community foundations.

As in the response to recommendation 3, there is potential to provide jobs and economic benefits in the shale gas and oil industry, both directly and in the supply chain. The report commissioned by the Welsh Government should provide a clearer estimate as to just how much potential there is for Wales to benefit.

Recommendation 5 – We call on the UK Government to outline in its response an analysis of the Welsh water resources required to service the unconventional gas industry in other parts of the UK.

Hydraulic fracturing for shale gas and oil typically uses 10 to 30 million litres per well. Whilst we are currently uncertain about the size of the industry, even at the highest potential, the amounts of water used would still only be a small proportion of the total quantity of water currently used by households, industry and agriculture each year.

We expect that water for hydraulic fracturing operations will be provided by local water companies and this is where the water used in the one hydraulic fracturing operation to date was sourced. All water companies in England and Wales are required to prepare and maintain statutory water resources management plans. These set out the estimated demand for water by households and businesses over the long term and the means by which the water companies will meet that demand. Water companies’ water resources plans set out estimated water available from different sources including, where appropriate, sources in Wales. However, plans do not match specific sources of supply to specific uses and so it is not possible to identify where water from Wales may be used in other parts of the UK for hydraulic fracturing. Water company water resources plans are available via each company’s website.

In November 2013, UKOOG and Water UK (who represent the major water supply companies in the UK) signed a Memorandum of Understanding which ensures their respective members will cooperate throughout the shale gas and oil exploration and extraction process. A key aim of the agreement is to give the public greater confidence and reassurance that everything will be done to minimise the effects on water resources and the environment.

Recommendation 6 – The UK Government and the Welsh Government must ensure that the regulatory and planning framework gives due weight to the traffic and noise caused by commercial shale gas operations, in addition to the visual impact and other environmental risks associated with hydraulic fracturing.

Planning policy in Wales is a devolved matter. Traffic and noise are matters covered in existing guidance contained in Minerals Planning Policy Wales (MPPW). Further advice was also provided to Chief Planning Officers in Wales on 8 July 2014. A copy of the letter can be found at the following link:

All onshore oil and gas projects, including shale gas, are subject to scrutiny through the planning system, which addresses impacts on local residents such as access and traffic movements, noise, visual intrusion and other issues to ensure that proposals do not have unacceptable adverse impacts on the environment and amenity of local residents. Each proposal will also be scrutinised by the relevant environmental regulator, in Wales Natural Resources Wales, and by the Health and Safety Executive.

**Recommendation 7** – We recommend that the UK Government, the Welsh Government and commercial companies work together to assess the extent of facilities currently available in Wales for the safe disposal of wastewater and to identify improvements that will need to be made as the shale gas industry develops.

The UK and Welsh Governments agree with the Committee that it is of utmost importance that wastewater from hydraulic fracturing is treated appropriately and does not lead to contamination. The regulatory framework makes operators responsible for ensuring the safe disposal of wastewater from shale gas and oil activities. However, as the Committee noted, prior to issuing a permit, Natural Resources Wales will require operators to demonstrate arrangements are in place with a company holding a radioactive substances activity permit for the treatment and safe disposal of their waste. We believe this is a robust framework for waste water for exploration at the exploration stage.

On 14 July, the Welsh Government published jointly with the UK Government, Scottish Government, and Northern Ireland Department of the Environment, the UK Strategy for the management of Naturally Occurring Radioactive Material (NORM) waste. The strategy states that there will be a need for additional NORM waste treatment and disposal capacity for shale gas activity in the medium term and that consideration of waste capacity of all kinds, including knowledge, skills and treatment infrastructure, should form an integral part of the plans of business proposing developments for shale gas and oil.

**Recommendation 8** – We recommend that the UK Government considers the case for minimising ground level shale gas operations in sensitive areas in Wales, such as Areas of Outstanding Natural Beauty, Sites of Special Scientific Interest, and National Parks. In its reply to this report, the Government must set out how it would ensure that such development did not compromise designated sites, in particular those in environmentally sensitive areas.

The UK Government recognises that there are areas of outstanding landscape and scenic beauty where the environmental and heritage qualities need to be carefully balanced against the benefits of oil and gas from unconventional hydrocarbons.

As stated above, planning is a devolved matter. The UK Government issued planning guidance for England in July 2014 that makes clear that in these areas, the environmental and heritage qualities need to be carefully balanced against the benefits of shale gas and oil. Where applications represent major development, planning permission should be refused in National Parks, the Broads and Areas of Outstanding Natural Beauty except in exceptional circumstances and where it can be demonstrated they are in the public interest. To be certain that this guidance is being applied the Communities Secretary will give particular consideration to recovering planning appeals arising from these types of developments for at least the next 12 months.
DECC will also require the Statements of Environmental Awareness which have to be submitted with licence applications to demonstrate applicants’ understanding of the environmental sensitivities relevant to the area proposed to be particularly detailed for these areas.

In Wales, Minerals Planning Policy Wales identifies issues that must be addressed to ensure that minerals proposals do not have an unacceptably adverse impact on the environment and provides guidance on minerals proposals within Special Areas of Conservation, Special Protected Areas, Sites of Specific Scientific Interest, Special Protection Areas, Special Areas of Conservation and locally designated sites. The Welsh Government issued a clarification letter to Chief Planning Officers in Wales on national planning policies that apply for onshore unconventional gas and oil development on 8 July. A copy of the letter can be found at the following link:


This letter stated that “minerals development should not take place in National Parks and Areas of Outstanding Natural Beauty save in exceptional circumstances”.

**Recommendation 9 – We encourage the Welsh Government to develop a Technical Advice Note for unconventional gas.**

On 8 July the Welsh Government issued a clarification letter on the national planning policies that apply for onshore unconventional gas and oil development, referred to above in recommendation 8.

The letter clarifies that the general policy considerations set out in Minerals Planning Policy Wales are applicable in considering planning applications in Wales. The letter also refers to the responsibilities covered by other regulators outside of the town and country planning system. A copy of the letter can be found at the following link:


**Recommendation 10 – We recommend that the UK Government and the Welsh Government require commercial companies to pay for an independent Environmental Impact Assessment at the exploratory stage of any significant shale gas development.**

The 1999 EIA Regulations fall under Town and Country Planning legislation and are a devolved matter. In Wales applications for both the exploratory and appraisal stages of unconventional gas development fall under Schedule 2 of the Town and Country Planning (Environmental Impact Assessment) Regulations 1999 and require an Environmental Impact Assessment (EIA) if they exceed the applicable threshold, or if any development is to be undertaken in a sensitive area. It is considered unlikely that exploratory drilling activities not involving hydraulic fracturing, or not sited in a sensitive area, will require an EIA.

However, the UK Government welcomes the commitment from operators through UKOOG that they will carry out and pay for an EIA whenever their operations use hydraulic fracturing.