

# Risk and Reward in the UK Continental Shelf: A Three-Part Series: Part Three

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According to [the latest Oil & Gas UK Business Sentiment Index](#), the UK offshore oil and gas industry currently has a pessimistic outlook for the first time since 2009. In this three part series, we consider the factors contributing to the industry's current mood and efforts to secure maximum economic recovery from one of the most mature offshore basins in the world.

## Part Three

### Looking to the Future of the UK Continental Shelf (UKCS): Recent Developments in the UK Government's Implementation of the Wood Review Recommendations

[Part One](#) of this series identified factors contributing to the current negative outlook for the UKCS oil and gas industry. [Part Two](#) of this series outlined the Wood Review recommendations to maximise recovery in the UKCS. In the final part of the series, we summarise the steps that the UK Government has taken to date in implementing the Wood Review recommendations, and look for potential indications of optimism returning to the industry in the future.

[In July 2014, the Government published a response to the Wood Review](#) in which it committed to implement all of the Wood Review recommendations. Full implementation of the Wood Review recommendations will occur in two phases:

- Phase one: Primary legislation to establish the framework for the MER UK principles and charge a levy to fund the activities of the new Regulator. This is contained in the Infrastructure Bill, which is currently proceeding through the UK Parliament.
- Phase two: Primary and secondary legislation to establish, among other things, wider powers for the new Regulator, an enforcement regime, and a detailed strategy for the implementation of the MER UK principles.

Notably, the Government announced that the new Regulator proposed by the Wood Review will be named the Oil and Gas Authority (OGA). The search for a high-profile CEO to lead the OGA

commenced in June 2014 and appears to remain in progress. The OGA will, eventually, be structured as a government company, which will allow it greater independence than the current light-touch regulator, which operates from within the Department for Energy & Climate Change.

A further development in the Government's implementation of the Wood Review recommendations occurred this week. [On 3 November 2014, the Department for Energy and Climate Change published an impact assessment](#) accompanying the phase one proposals to implement the Wood Review recommendations (the Impact Assessment).

The Impact Assessment estimates the potential net benefit to business associated with the implementation of all the Wood Review recommendations of between £20.7 billion and £56.3 billion (net present value), primarily as a result of greater oil extraction from the North Sea. The Impact Assessment added that the full costs and benefits associated with the Wood Review's recommendations would be realised at the secondary stage of implementation and will be contained in a further impact assessment.

According to the Impact Assessment, consultation on phase two of the implementation of the Wood Review recommendations will begin "in autumn 2014" (i.e., immediately). The timescales published in the Impact Assessment provide for full implementation to be completed by summer 2016, subject to the legislative programme for the next Parliament.

When announcing the industry's current negative outlook in the Q3 2014 Index, Oil & Gas UK noted that the implementation of the Wood Review recommendations would "help deliver both opportunity and certainty to the UKCS". Even in the current pessimistic climate, Oil & Gas UK added that capital investment in the UKCS was the highest in three decades in 2013, at £14.4 billion.

On a final positive note, on 23 October 2014, GDF Suez E&P Ltd and BP announced a new discovery in the UK Central North Sea. The announcement was welcomed by Oil & Gas UK, which described the discovery as "heartening" and a demonstration that there are "still significant economic plays to be developed within the basin".

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