

Formal Response by The EIC

to the

**Department of Energy and Climate Change
(DECC)**

Proposals for Electricity Market Reform



March 2011

The EIC is the leading trade association for UK companies supplying goods and services to the energy industries worldwide. Established in 1943, the EIC has over 600 Member companies and provides them with the capability to understand, identify and pursue global business opportunities. The EIC membership comprises contractors and suppliers from all areas of the energy sector who make a significant contribution to the UK economy, employing in aggregate around one million personnel and generating £100 billion in revenues from their UK operations. The EIC's head office is in London with regional offices in Billingham and Aberdeen, and overseas offices in Rio de Janeiro, Houston, Singapore, Dubai and Beijing.

This is a formal response to the DECC proposals for Electricity Market Reform in the UK. The views and opinions have been collated through various meetings, forums and other avenues hosted by The EIC during 2011.

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Response to DECC Electricity Market Reform (EMR)

1. The UK supply chain has mixed opinions on many aspects of Electricity Market Reform. The supply chain must establish a credible track record in the home market and then build on this success to deliver contract revenues in the export market. A successful low carbon framework should undoubtedly provide massive potential opportunities for the UK economy, however moving towards this objective whilst maintaining the fullest potential for the supply chain needs considerably more planning and attention to detail.
2. Government has made numerous references to the UK economy benefitting in jobs and supply chain revenue through the decarbonisation of the wider energy sector. Supply chain and workforce skills requirements are not mentioned in the EMR proposal document.
3. The UK supply chain is concerned that the timetable for implementing codes and license arrangements through secondary legislation may not be fully effective until 2014. This only accentuates uncertainty for investment and delays the supply chain in gearing towards opportunities. It is critical that solid foundations are put in place in the Spring White Paper 2011 that inspires confidence to the UK power industry investment houses.

4. The EMR considers four main proposals. It is uncertain how interactions between these instruments and existing mechanisms will manifest. The complexity of the electricity market is already burdensome and further difficulties would not invigorate investment. A smooth transition towards EMR is critical.
5. The introduction of a carbon floor price through the Climate Change Levy (CCL) will provide a higher more sustainable price for carbon although the uncertainty of future carbon pricing through EU ETS remains an issue for securing long term investment. Fast response balancing plant will become much more important as the renewables installed capacity increases. An Emissions Performance Standard (EPS) applied to gas fired combined cycle plants could reduce investor attractiveness in building the preferred choice for such flexible plant.
6. There is a perceived risk in the UK supply chain that political interference from successive governments may damage the continuation towards a low (and ultimately a zero) carbon power generation sector. The Contracts for Differences (CfD) approach certainly strengthens investment decisions. However carbon pricing and other support measures, including taxation have greater subjectivity to change from different governments. It is hoped and strongly encouraged that government will engage all political parties, stakeholders and allied organisations for ongoing opinion to reach a balanced consensus. This will ensure that the national interest is upheld and that political risk is minimized.
7. It is essential that UK government supports and encourages younger people to consider the energy and low carbon sectors as a secure and rewarding profession. Ensuring due recognition of "Engineering" as a profession still receives lip service in too many circles. Geographically the UK is well positioned to take maximum advantages in carbon storage. Low carbon technologies can make an enormous benefit to the UK economy and position the UK as a leading proponent in the designs of sustainable solutions. Building and stimulating a skilled workforce to deliver these ambitions must not be given scant consideration.
8. There remains a growing concern in the light of recent offshore wind projects that the UK is not able to provide a credible level of manpower or realize high proportions of capital project expenditure, even within its homeland territory. Although the supply chain is encouraged by the prospects of massive inward investment into the low carbon sector in the UK, this is not necessarily seen as a robust long term market opportunity for home based talents. A strategy to benefit from the UK project experience and grow real UK skills off the back of major overseas OEM suppliers and EPC contractors is essential in promoting UK expertise in the global market.
9. The supply chain for new build nuclear projects in the UK is positioning itself competitively and undergoing prequalification exercises with relevant developers and contractors. Ironically, the EMR proposals will support more favourably, existing nuclear plants through the carbon floor pricing but do not necessarily strengthen the argument for investment in new build projects. Supply chain expectations are very high

and government must recognize the emphasis that many lower tier specialist and niche companies are placing in this opportunity.

10. The UK supply chain has judged the DECC led CCS Demonstration programme harshly. The competition was considered to be poorly conceived, not fully comprehend the technology market and not include a well-planned implementation or market export strategy. Although the scheme has been somewhat rescued over the last twelve months the supply chain remains broadly sceptical that it [the scheme] will launch the UK to global success in this sector.
11. Many UK SME companies in the wider energy sector rely heavily on the home market. Ownership of the UK power generation industry is largely in foreign control and new build UK projects have to compete with projects overseas for investment funding. The UK supply chain is concerned that if such operators and developers consider the EMR proposals to reduce the attractiveness of investment or create an onerous business environment then UK based projects may be delayed, or not proceed.